S. HRG. 101-757

THE COPYRIGHT CLARIFICATION ACT

HEARING

BEFORE THE

SUBCOMMITTEE ON
PATENTS, COPYRIGHTS AND TRADEMARKS

OF THE

COMMITTEE ON THE JUDICIARY
UNITED STATES SENATE

ONE HUNDRED FIRST CONGRESS

FIRST SESSION

ON

S. 497

A BILL ENTITLED THE "COPYRIGHT REMEDY CLARIFICATION ACT"

MAY 17, 1989

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THE COPYRIGHT CLARIFICATION ACT

WEDNESDAY, MAY 17, 1989

U.S. Senate,
Committee on the Judiciary,
Subcommittee on Patents, Copyrights and Trademarks,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:08 a.m., in room 262, Dirksen Senate Office Building, Hon. Dennis DeConcini (chairman of the subcommittee) presiding.

OPENING STATEMENT OF HON. DENNIS DeCONCINI, A U.S. SENATOR FROM THE STATE OF ARIZONA

Senator DeConcini. The Subcommittee on Patents, Copyrights and Trademarks will come to order.

The subcommittee convenes today to hear testimony regarding S. 497, a bill I have introduced along with my colleagues, Senator Simon and Senator Hatch.

Senator Hatch, our ranking member, is not going to be able to be here today, but he has asked that we go ahead and proceed. Also, Senator Simon advised me a few minutes ago that he can not be here this morning, but wants the record to reflect his enthusiastic support.

S. 497 clarifies what I believe to be Congress' intent that States be subject to suit under the 1976 Copyright Act for damages arising from copyright infringement. This bill has been made necessary by recent Federal circuit court opinions which have held that States are immune from suit in Federal courts for infringement of copyright material.

If these decisions are allowed to stand without further congressional action, the intolerable result will be that States are entirely immune from damages for infringement under the comprehensive scheme of copyright protection the Congress provided in the Copyright Act. This lack of protection for American copyright material cannot be allowed to continue, and I believe that Congress must act now to restore to the law the degree of protection that has been thought to exist since the Congress originally enacted the copyright laws.

On October 3, 1988, the U.S. Court of Appeals for the Ninth Circuit held that States and their instrumentalities are immune from damage suits for copyright infringements under the sovereign immunity clause of the 11th amendment to the U.S. Constitution. That decision, together with recent similar holdings in the fourth circuit, critically impairs creative incentive and business investments throughout this country's copyright industries—all of which serve important market segments which contain at least some State entities.

The U.S. Supreme Court had denied certiorari in both of these particular cases. Particularly vulnerable to State infringements are the educational publishers among whose principal markets are State universities.

The anomalous result of these decisions is that public universities can infringe without liability upon copyright material and essentially steal information from private universities, but private universities cannot similarly infringe with immunity on public institutions. In other words, the University of California at Los Angeles can sue the University of Southern California for copyright infringement, but USC cannot sue UCLA.

A State assertion of sovereign immunity in copyright claims has a particularly devastating effect on copyright owners who—unlike others foreclosed by 11th amendment immunity only from the Federal courts—are deprived of any forum for effective relief. Following the ninth circuit decision, the Register of Copyrights reported to Congress that "Copyright proprietors have demonstrated that they will suffer immediate harm if they are unable to sue infringing States."

The ninth circuit itself concluded that:

> Although we find the arguments compelling, we are constrained by the Supreme Court's mandate that we find an abrogation of immunity only when Congress has included * * * unequivocal and specific language indicating an intent to subject States to suit in Federal court. Such language is absent from the Copyright Act of 1976. We recognize that our holding will allow States to violate the Federal copyright laws with virtual impunity. It is for the Congress, however, to remedy this problem.

Congressional reimposition of State liability for damage action for copyright infringement is not a complicated matter and should not be a controversial one. The simple fact is that protecting copyright from this particular form of infringement does not render any conduct unlawful that is not already unlawful.

It does not take away any rights from States that they now possess. It does provide fair opportunity for copyright owners to have their day in court, and it does provide relief for what is now and will remain infringing State conduct.

Most importantly, congressional action to restore protection from infringement by States also serves to restore the careful, delicate balances struck by the 1976 Copyright Act—indeed restoring this form of protection is essential to restoring that balance and perfecting the Congress' clear intent.

I look forward to hearing the testimony that we are going to receive from our distinguished and knowledgeable group of witnesses today. We have gathered some real experts in this area that I think will help us understand this problem more clearly.

I am sure that my colleagues and I will learn a great deal from this, and I am confident that after we do this, we will be able to move to a markup of S. 497 with any necessary amendments.

Before introducing our first witness, let me say that we have statements from both Senator Hatch and Senator Grassley that will, without objection, be included in the record at this point.

[The statements of Senators Hatch and Grassley and a copy of S. 497 follow:]

STATEMENT OF SEN. ORRIN HATCH

SENATE JUDICIARY COMMITTEE PATENTS SUBCOMMITTEE

HEARING ON THE COPYRIGHT REMEDY CLARIFICATION ACT

Mr. Chairman, I would like to thank you for holding this hearing on S. 497, the Copyright Remedy Clarification Act. As a cosponsor of this bill, I believe that it is important that we move forward quickly on this issue to protect the rights of American copyright owners.

When Congress passed the 1976 Copyright Act, it provided for remedies against anyone who violated the rights of copyright owners. With the Act, Congress intended to include the states within the meaning of the term "anyone." Unfortunately, the Fourth and Ninth Circuit Court of Appeals, based on their application of *Atascadero State Hospital v. Scanlon*, have concluded otherwise. These courts have upheld Eleventh Amendment immunity in copyright infringement suits.

Mr. Chairman, it is my view that these courts reached the wrong conclusion. A review of the Act and its legislative history by the Copyright Office found that it was Congress' intent to include the States. However, given the Supreme Court's holding in *Atascadero* that "Congress may abrogate the States' constitutionally secured immunity from suit in federal court only by making its intention unmistakably clear in the language of the statute," I understand why the courts ruled as they did. That is why I have joined you, Mr Chairman, in your effort to make the statute "unmistakably clear."

This legislation is simple in its approach. It specifies that states and their instrumentalities are in fact included within the meaning of the term "anyone." This should return the interpretation of the Copyright Act to its original intent and provide copyright owners the protection they were promised in 1976.

I join the Chairman in welcoming our distinguished witnesses before the subcommittee, and I look forward to their testimony regarding this legislation.

STATEMENT OF SENATOR CHARLES E. GRASSLEY

MR. CHAIRMAN, THANK YOU FOR HOLDING THESE HEARINGS. I AM INTERESTED TO STUDY THE ISSUE RAISED BY THE COPYRIGHT CLARIFICATION ACT. THIS BILL WOULD ABROGATE THE IMMUNITY NOW ENJOYED BY THE STATES IN THE AREA OF COPYRIGHT LAW. AND I HAVE SOME CONCERNS ABOUT THAT.

CONGRESS HAS PLENARY POWERS IN THE AREA OF COPYRIGHT LAW. THAT IS CLEARLY SPELLED OUT IN THE CONSTITUTION IN ARTICLE 1, SECTION 8. BUT THE 11TH AMENDMENT PROTECTS THE STATES FROM LEGAL ACTIONS IN FEDERAL COURT. AND THAT TENSION IS WHAT THIS BILL IS ALL ABOUT.

UNTIL RECENTLY, THERE HAS NOT BEEN EXTENSIVE COPYRIGHT INFRINGEMENT LITIGATION AGAINST STATE INSTITUTIONS. IN FACT, ACCORDING TO THE REGISTER OF COPYRIGHT'S STUDY ON THIS ISSUE, THERE WERE ONLY TWO CASES DECIDED UNDER THE OLD COPYRIGHT LAW. AND UNTIL THE 1985 SUPREME COURT CASE ON SOVEREIGN IMMUNITY (ATASCADERO), THE FEW COURTS WHICH FACED THE ISSUE WERE SPLIT ON WHETHER THE STATES ARE PROTECTED FROM COPYRIGHT INFRINGEMENT SUITS.

ACCORDING TO THE 1985 DECISION, CONGRESS MUST CLEARLY STATE ITS INTENTION TO ABROGATE SOVEREIGN IMMUNITY. SINCE THAT CASE, THE COURTS HAVE FOUND THE INTENT OF CONGRESS IN THE 1976 COPYRIGHT ACT WAS AMBIGUOUS. THUS, THE COURTS HAVE HELD THE STATES TO BE IMMUNE FROM MONETARY DAMAGE ACTIONS UNDER THE COPYRIGHT ACT.

BUT THERE IS A THRESHOLD ISSUE HERE, AND THAT IS WHETHER SOVEREIGN IMMUNITY CAN BE ELIMINATED BY CONGRESS IN ALL EXERCISES OF ITS AUTHORITY. THE SUPREME COURT HAS A CASE PENDING IN WHICH IT WILL DECIDE THIS ISSUE. THE UNION GAS CASE MAY GIVE US FURTHER INSIGHT INTO THE PURPOSE AND SCOPE OF THE ELEVENTH AMDENDMENT, AND I WILL BE INTERESTED TO LEARN FROM OUR WITNESSES THEIR VIEWS ON THIS MATTER.

THANK YOU AGAIN, MR. CHAIRMAN, AND I THANK THE WITNESSES FOR APPEARING HERE TODAY.

II

101st CONGRESS
1st Session

S. 497

Entitled the "Copyright Remedy Clarification Act".

IN THE SENATE OF THE UNITED STATES

MARCH 2 (legislative day, JANUARY 3), 1989

Mr. DECONCINI (for himself, Mr. SIMON, and Mr. HATCH) introduced the following bill; which was read twice and referred to the Committee on the Judiciary

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A BILL

Entitled the "Copyright Remedy Clarification Act".

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "Copyright Remedy Clarification Act".

SEC. 2. LIABILITY FOR STATES AND INSTRUMENTALITIES OF STATES FOR INFRINGEMENT OF COPYRIGHT AND EXCLUSIVE RIGHTS IN MASK WORKS.

(a) COPYRIGHT INFRINGEMENT.—Section 501(a) of title 17, United States Code, is amended by adding at the end the following: "As used in this subsection, the term 'anyone' includes any State and any instrumentality of a State, both of which shall be subject to the provisions of this title in the same manner and to the same extent as any nongovernmental entity.".

(b) INFRINGMENT OF EXCLUSIVE RIGHTS IN MASK WORKS.—Section 910(a) of title 17, United States Code, is amended by adding at the end the following, "As used in this subsection, the term 'any person' includes any State and any instrumentality of a State, both of which shall be subject to the provisions of this title in the same manner and to the same extent as any nongovernmental entity.".

SEC. 3. EFFECTIVE DATE.

The amendments made by this Act shall take effect on the date of the enactment of this Act but shall not apply to any case filed before such date.

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Senator DECONCINI. Our first witness today is Mr. Ralph Oman, the Register of Copyrights, accompanied by Dorothy Schrader.

Mr. Oman, would you please summarize your statement? Your full statement will appear in the record, and I do thank you for the comprehensive statement that you have submitted to us. It is very helpful.

STATEMENT OF RALPH OMAN, REGISTER OF COPYRIGHTS, WASHINGTON, DC, ACCOMPANIED BY DOROTHY SCHRADER, CHIEF COUNSEL

Mr. OMAN. Thank you very much, Mr. Chairman. It is a pleasure to be here today to testify in support of S. 497.

As you mentioned, your bill would clarify Congress' intent that the State should be subject to suit in Federal court for infringements of both copyright and mask works. As you know, Mr. Chairman, the 11th amendment generally prohibits Federal courts from entertaining damage suits brought against a State by citizens of another state or country.

The Supreme Court has extended State immunity to prohibit suits against a State by its own citizens. In recent years several courts have held that 11th amendment immunity immunizes States from suit for copyright infringement in Federal court.

This poses a great dilemma. While the Copyright Act grants to copyright owners certain exclusive rights in their works, the law dictates that all copyright suits be litigated exclusively in Federal court. Application of the 11th amendment leaves copyright owners with no effective remedy against allegedly infringing States. This result is illogical and contrary to the clear intent of Congress.

Even so, Mr. Chairman, Federal district courts in five States applying the rationale of the Supreme Court decisions in other 11th amendment cases—cases that did not involve copyright law—have uniformly held that State governments are immune to suit for infringement. In 1988, the Copyright Office issued its report on the clash between the 11th amendment and the Federal copyright law.

That study was divided into three parts. There was a factual inquiry concerning the practical enforcement problems and State practices, a legal history and historical analysis of the 11th amendment and its application in copyright infringement suits against States, and a 50-State survey of State laws. I submitted the study to the subcommittee in June of last year, Mr. Chairman.

In the report, we received only a few responses from States and their entities. Most of the comments came from copyright proprietors. They chronicled dire financial consequences if the States were given immunity from monetary damages in copyright infringement suits.

The Publishers Trade Association estimated that in 1986 alone, U.S. publishers received $1.4 billion from the sale of college and university textbooks, of which approximately $1.1 billion are received from entities with potential 11th amendment immunity.

The major concern of copyright owners, Mr. Chairman, is the widespread uncontrolled copying of their works without payment. A quarter of the responses indicated that injunctive relief is neither adequate, nor does it deter the type of illegal behavior that they are concerned about. Small companies especially voiced fear about this prospect and said that they lacked the resources to battle State governments.

After analysis of the comments, the Copyright Office concluded that copyright proprietors demonstrated, if nothing else, at least the potential for harm unless States are held accountable in damages for the infringement of copyrighted works.

Certainly Congress can make its own judgment on this score. In any case, the Copyright Office concludes that Congress intended to expose the States to liability.

Your bill, Mr. Chairman, would clarify that States and State instrumentalities are fully subject to suit in Federal court if they infringe copyrighted works or mask works. In other words, it would cure the doubt that was raised by the Supreme Court in its 1985 decision in *Atascadero State Hospital* v. *Scanlon*. As you know, that case requires Congress expressly to abrogate 11th amendment immunity. Owners of copyright and mask works would have available to them the full panoply of civil remedies: Injunctive relief, actual statutory damages, and seizure of infringing articles.

The language and history of the Copyright Act of 1976 demonstrate that Congress in fact intended to hold States, like other users, liable for copyright infringement. Section 110 exempts certain acts of governmental bodies. The former manufacturing clause in sections 601 and 602 exempted from copyright liability certain importations by the States.

If Congress had not intended to subject the States to damage suits in Federal court, it need not have expressly exempted this State activity from copyright liability. The legislative history of the Copyright Act demonstrates that the debate focused on the extent to which Congress should exempt the States from full liability.

No one suggested at that time that the States were already immune from liability as to damages under the 11th amendment. No State official has requested total exemption from copyright liability.

I see no policy justification for full State immunity to copyright damage suits. Injunctive relief alone is inadequate.

The current legal dilemma arises from the application of the new constitutional doctrine enunciated in *Atascadero* to the copyright law. Good copyright policy requires that the States be subject to copyright liability, except to the extent that Congress legislates specific narrow exemptions for nonprofit uses.

State representatives have not disputed this legislative policy. They recognize that respect for copyright law and property rights conferred by the law is good public policy.

As a practical matter, Mr. Chairman, I suspect that States will continue to buy books rather than copy books. They will buy computer programs and other copyrighted works. They acquire licenses for the performance of music at non-exempt school events.

I doubt very much that if you failed to enact this bill that the States would launch a massive conspiracy to rip off the publishers across the board. They are all respectful of the copyright law. What State official wants to get a reputation as a copyright pirate?

No, Mr. Chairman, I suspect that they will continue to respect the law. If some might argue for limited immunity—which I repeat, none have done specifically at this point—they would want it only to shield the State treasury from occasional error, misunderstanding, or innocent infringement.

"Everybody makes mistakes," they may say, "But let's not raid the State coffers because of one human error. An injunction is all you need."

States might also argue that suits for monetary damages against individual State officials would certainly act as a brake on their illegal behavior. The answer to that line of reasoning in simple, Mr. Chairman. Without the threat of a fat fine, the States might become lax in their copyright education programs. With no exposure, the training will slack off, the copyright awareness will decrease, and the honest mistakes will become more and more frequent.

Your bill will introduce some anxiety back into the equation and it will have an important deterrent effect on the States' copyright practices. It will act as a guard against sloppiness. I urge Congress to pass the Copyright Remedy Clarification Act as quickly as possible.

Thank you very much, Mr. Chairman.

[Mr. Oman submitted the following material:]

STATEMENT OF RALPH OMAN
REGISTER OF COPYRIGHTS

MAY 17, 1989

The Copyright Office supports enactment of S. 497, the Copyright Remedy Clarification Act, which would amend the Copyright Act of 1976 to clarify Congress' intent that states and their instrumentalities should be subjected to suit in federal court for infringements of both copyrights and mask works.

The Eleventh Amendment has recently been interpreted as conferring immunity on the states against suit for copyright infringement in federal courts.

At the request of the House Subcommittee on Courts, Civil Liberties, and the Administration of Justice, the Copyright Office filed a report in June 1988, in which the Office recommended remedial legislation to clarify what it perceived to be the original intent of the Congress in passing the Copyright Act of 1976.

Under S. 497, owners of copyright and mask works would have available to them the full panoply of civil remedies: injunctive relief, actual and statutory damages, and seizure of infringing articles. Of course, no criminal penalties apply. In the case of copyrights, criminal penalties apply only to commercial activities. The Semiconductor Chip Protection Act contains no criminal penalties.

The bill, if enacted, would not apply to cases filed before the date of enactment. The Copyright Office supports this limited qualification on retroactivity. As we understand the qualification, the intent is to avoid interference with any pending cases.

Authors and copyright proprietors have demonstrated the potential for immediate harm from the uncompensated use by states and state entities of works protected under the federal Copyright Act. The public would lose as well--other groups of consumers would bear the brunt of increased costs; without compensation, the incentive to create would be significantly diminished and fewer works published.

There is no policy justification for full state immunity to copyright damage suits. Injunctive relief alone is inadequate. Nor would it be fair to leave the state damage-proof and require copyright owners to seek out some compensation through suits against state officials as individuals. During the information-gathering phase of preparing the Copyright Office Report, no state official made any policy argument that the states should be exempt from copyright liability. The Copyright Office knows of no opposition to this legislation.

STATEMENT OF RALPH OMAN
REGISTER OF COPYRIGHTS

BEFORE THE SUBCOMMITTEE OF
PATENTS, COPYRIGHTS, AND TRADEMARKS
SENATE COMMITTEE ON THE JUDICIARY

101st CONGRESS, FIRST SESSION

May 17, 1989

Mr. Chairman and members of the Subcommittee, I am Ralph Oman, the Register of Copyrights. I appreciate this opportunity to appear before you to testify in support of S. 497, the Copyright Remedy Clarification Act, which was introduced by you, Mr. Chairman, and by Senators Simon and Hatch. A companion bill, H.R. 1131, was introduced in the House by Representatives Kastenmeier and Moorhead. This bill would amend the Copyright Act of 1976 to clarify Congress' intent that states and their instrumentalities should be subject to suit in federal court for infringements of both copyrights and mask works.

I. Background

An important conflict in federalism infuses the interplay between the Copyright Act of 1976 and the Eleventh Amendment to the Constitution. While the former grants to copyright owners certain exclusive rights in their works--which under section 1338(a) of title 28 of the United States Code must be litigated exclusively in the federal courts--the latter generally prohibits federal courts from entertaining damage suits brought against a state by citizens of another state or country. And, importantly, the Supreme Court has extended the principle of sovereign immunity to prohibit suits against a state by its own citizens.

The tension between the Copyright Act and the Eleventh Amendment crystallized recently with several suits pitting copyright owners against allegedly infringing states. These suits presented an important legal issue: to wit, whether Congress, in enacting the Copyright Act under the copyright clause of the Constitution, intended states to be subject to copyright liability notwithstanding the Eleventh Amendment.

The body of Eleventh Amendment jurisprudence has evolved in a way that has made the enforcement of claims against states very difficult for copyright owners.[1] In a recent line of cases, federal district courts in five states, applying current Supreme Court decisions in other Eleventh Amendment cases (not involving copyright law), have uniformly held that state governments are immune from suits for money damages for copyright infringement.[2]

By an August 3, 1987 letter, the then House Subcommittee on Courts, Civil Liberties and the Administration of Justice requested that the

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[1] *Compare* *Mills Music, Inc. v. Arizona,* 591 F.2d 1278 (9th Cir.1979) (states not immune to copyright damage suits under the Eleventh Amendment) *with* *BV Engineering v. UCLA*, 858 F.2d 1394 (9th Cir. 1988), *cert. denied*, 57 USLW 3614 (1989) (states immune under the Eleventh Amendment).

[2] *BV Engineering v. University of California, Los Angeles*, 657 F. Supp. 1246 (C.D. Cal. 1987), *aff'd*, 858 F.2d 1394 (9th Cir. 1988), *cert. denied*, 57 USLW 3614 (1989); *Mihalek Corp. v. Michigan*, 595 F. Supp. 903 (E.D. Mich. 1984), *aff'd on other grounds*, 814 F.2d 290 (6th Cir 1987); *Cardinal Industries v. Anderson Parrish Ass'n*, No. 83-1038-Civ-T-13 (M.D. Fla. Sept. 6,1985), *aff'd* 811 F.2d 609 (11th Cir. 1987); *Richard Anderson Photography v. Radford University*, 633 F. Supp. 1154 (W.D. Va. 1986), *aff'd*, 852 F.2d 114 (4th Cir. 1988), *cert. denied*, 57 USLW 3536 (1989); *Woelffer v. Happy States of America, Inc.*, 626 F. Supp. 499 (N.D. Ill. 1985).

Copyright Office assess the nature and extent of the clash between the Eleventh Amendment and the federal copyright law. Specifically, the Subcommittee instructed the Office to conduct inquiries into the practical problems of enforcement of copyrights against state governments, and the presence, if any, of unfair copyright or business practices vis-a-vis state governments with respect to copyright issues.

In response to this request, the Copyright Office, with assistance from the Congressional Research Service of the Library of Congress, conducted a legal and factual study of the Eleventh Amendment and its interplay with copyright. The study was divided into three parts: a factual inquiry concerning the two issues raised by the Subcommittee, a legal and historical analysis of the Eleventh Amendment and its application in copyright infringement suits against states, and a fifty state survey of state law seeking to identify laws that indicate whether or not a state waives its common law sovereign immunity or Eleventh Amendment immunity in copyright infringement cases.

The Copyright Office published a Request for Information in the Federal Register to elicit public comments for the legal analysis and factual inquiry that would comprise the first two parts of the study.[3] Additionally, the Congressional Research Service of the Library of Congress conducted the fifty-state survey that comprised the third part of the study. The study, titled Copyright Liability of States And The Eleventh Amendment ["Register's Report"], was submitted to the Subcommittee in June, 1988.

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[3] 52 Fed. Reg. 42045 (Nov. 2, 1987).

II. The Register's Report

In response to its Request for Information, the Copyright Office received 44 comments. Except for several responses from states and their entities, the comments uniformly chronicled dire financial and other repercussions flowing from state immunity from damages in copyright infringement suits. Moreover, complaints of unfair copyright and business practices by copyright proprietors were conspicuously lacking. Indeed, one company declared that in the highly competitive industry of educational publishing, for example, state agencies are able to exact substantial concessions of basic intellectual property rights. Another organization stated that it had no knowledge of any unfair practices, and had even allowed modifications to its own standard contracts for certain state schools.

Losses in educational publishing are significant because the percentage of book revenues from state agencies has increased over the past several years as state governments have assumed a larger part of the federal government's responsibility for educational services. In 1986 alone, the publishers' trade association estimated that U.S. publishers received $1.4 billion from the sale of college and university textbooks. A 1977 Department of Education Bulletin estimated that 77.4 percent of university and graduate students in the U.S. attend state run institutions. Thus, assuming book usage is the same at public and private schools, there are approximately $1.1 billion of book sales to entities with potential Eleventh Amendment immunity who can copy and seriously erode the market.

Educational publishers are also concerned that states can structure the ways in which subordinate units of government are created, funded, or do business to cloak them with state authority and immunize them from liability for copyright damages.

Basically, the copyright owners fear the widespread, uncontrollable copying of their works without remuneration. A quarter of the responses indicated that injunctive relief is neither an adequate remedy nor a deterrent. This is particularly true for small companies that lack the resources to battle states. Additionally, one comment warned that if immunity were applied to foreign works, it would provoke retaliation by U.S. trading partners and impede efforts to acquire better protection abroad.

Finally, several comments admonished that companies will not market or will closely monitor their sales to states; that prices of products to users other than states will likely increase; that the rights of third parties will be violated, particularly with databases and permission fees paid to authors; and that the economic incentive and ability to create will be diminished.

After analysis of the comments, the Copyright Office concluded that copyright proprietors demonstrated the potential for immediate harm to them unless states were held accountable in damages for the infringement of copyrighted works. And although courts have uniformly held states immune from such responsibility in their recent decisions, the Office believes that this was not the intent of Congress, but instead the result of the 1985 Atascadero[4] decision, which requires that Congress' intent to abrogate Eleventh Amendment immunity be clearly expressed in the language of a statute. To that end, the Office supports passage of the Copyright Remedy

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[4] Atascadero State Hospital v. Scanlon, 473 U.S. 234 (1985).

Clarification Act, which will reaffirm Congress' intent to hold states and their instrumentalities liable for infringements of copyrights and mask works.

III. Legal Interpretations of the Eleventh Amendment.

To shed some light on its present meaning, it is important to examine the Eleventh Amendment in its historical context, tracing the turns of often tortuous interpretations.

Although members of state constitutional conventions debated the extent to which Article III--which provides federal court jurisdiction based upon both subject matter[5] and diversity of citizenship[6]--displaced the common law sovereign immunity existing under each state's own laws, there was no firm consensus regarding the breadth of the judicial power of the United States granted by Article III in citizen suits against states.

In 1793, the Supreme Court decided in the landmark case of Chisholm v. Georgia, 2 U.S. (2 Dall.) 419 (1793), that a citizen of one state could sue another state in federal court for the latter's repudiation of its Revolutionary War debts. Chisholm caused an immediate hue and cry from the public which threatened the stability of the new nation, and resulted in the hurried enactment of the Eleventh Amendment.

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[5] The constitution and statutes under which a court operates confer upon it power to decide particular types of cases. For federal courts, section 2 of Article III of the Constitution identifies nine categories of cases and controversies which may be heard, one of which is federal questions. In turn, 28 U.S.C. sec. 1338(a) provides for exclusive federal jurisdiction in copyright cases.

[6] Another basis for jurisdiction in the federal courts, for those cases not involving questions of federal law, is through diversity of citizenship. For citizenship to be diverse, the parties must be citizens of different states or one of them must be a citizen of a foreign country. The diversity case must also meet an amount in controversy requirement of $10,000. However, the Judicial Improvements and Access to Justice Act, Pub. L. No. 100-702 (1988), increases the amount to $50,000, effective May 19, 1989.

However, an important question remained after Chisholm: did the Eleventh Amendment alter the Constitution or merely restate its original meaning? Resolution of this question would be crucial for later interpretations. If the Amendment merely withdrew the power to sue a state based on diversity jurisdiction--which was permitted in Chisholm--then it would not bar federal question jurisdiction. On the other hand, if the Amendment restated some original common law sovereign immunity found in the Constitution, then suits against a state even by its own citizens, though not falling within the literal language of the Amendment, would also be barred.

For almost a hundred years, until Hans v. Louisiana, 134 U.S. 1 (1890), the Amendment was construed narrowly. In Hans, the Court extended the literal language of the Eleventh Amendment to prevent a citizen from suing his own state in federal court without its consent, even though jurisdiction was based this time on a federal question (a suit under the contracts clause of the Constitution) and not on diversity. The Court adopted the theory that the Amendment incorporates the principle of common law sovereign immunity, so its proscriptions are not limited to the literal language of the Amendment.

To some, Hans was based on a revisionist reading of the Framers' "original intent," which to this day muddies the boundary between federal and state sovereignty. Indeed, it is argued, it is even questionable whether Hans is an interpretation of the Eleventh Amendment at all. One view is that the decision is actually an interpretation of Article III since the

Amendment, literally read, does not address suits against a state by its own citizens, and accordingly cannot prohibit them.[7]

To limit the Hans expansion of the reach of Eleventh Amendment immunity, the Court adopted the legal theory in Ex Parte Young, 209 U.S. 123 (1908), that a suit against a state official for injunctive relief is not a suit against the state. The Court reasoned that if a state cannot constitutionally authorize an act, then its agent cannot derive authority from the state's grant and thus acts on his own.[8]

For a brief period in the middle of the twentieth century, the Supreme Court also used the theory of a state's express or implied waiver of the Eleventh Amendment to avoid a finding of state immunity.[9] The emergence of this view demonstrated that the Court viewed the Amendment not as a jurisdictional bar, since such bars generally may not be waived, but as a means for avoiding enforcement of state or federal law against the states when the tools of enforcement are not within the access of the Court.

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[7] J. Orth, The Judicial Power of the United States, The Eleventh Amendment in American History, 75 (1987).

[8] Currently, based on this precedent, a copyright owner can sue a state to enjoin violations of his exclusive rights. However, a significant number of owners stated that for numerous reasons injunctive relief was inadequate. Register's Report at 13-15.

[9] The other traditional common law means of avoiding a finding of state immunity is the Ex Parte Young exception permitting suits against an officer of the state.

Initially, waiver cases involved express consent, although statutes allegedly demonstrating consent were construed strictly,[10] but later the Court found in several instances that a state had waived its immunity by implication.[11] In Parden v. Terminal Railway of Alabama, 377 U.S. 184 (1964), the Court concluded that "when a State leaves the sphere that is exclusively its own and enters into activities subject to congressional regulation, it subjects itself to that regulation as fully as if it were a private person or corporation." Id. at 196.

In Employees of the Department of Public Health & Welfare v. Department of Public Health & Welfare, 411 U.S. 279 (1973), the Court began constricting the implied waiver doctrine, and virtually eliminated it in Edelman v. Jordan, 415 U.S. 651 (1974), holding that a court may find waiver by a state "only where stated 'by the most express language or by such overwhelming implications from the text as [will] leave no room for any other reasonable construction.'" Id. at 673 (citation omitted).

A. Congressional Abrogation under the Reconstruction Amendments.

After abandoning its role as champion of property rights during the 1930's, the Supreme Court donned the mantle of defender of civil rights during the 1950's. The Court's bold stance in Brown v. Board of Education, 347 U.S. 483 (1954), marked the end of the judiciary's long adherence to the

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[10] See, e.g., Ford Motor Co. v. Dept. of Treasury, 323 U.S. 459 (1945); Great Northern Life Insurance Co. v. Read, 322 U.S. 47, 54 (1944).

[11] See, e.g., Parden v. Terminal Railway of Alabama, 377 U.S. 184 (1964); Petty v. Tennessee-Missouri Bridge Commission, 359 U.S. 275 (1959).

Compromise of 1877, which had left states free to violate the civil rights won in the Civil War.

To support congressional power in this field, the Court created an exception to the Eleventh Amendment: state sovereignty was limited by the enforcement provisions of section five of the Fourteenth Amendment. *Fitzpatrick v. Bitzer*, 427 U.S. 445 (1976). Although as early as 1964, in the *Parden* decision, the Court seemed to state as an alternative holding that the power of Congress to regulate interstate commerce included the authority to subject states to suit notwithstanding the Eleventh Amendment, *Fitzpatrick* held for the first time that state waiver was not always required to abrogate[12] Eleventh Amendment immunity. The Court did require, however, clear evidence of congressional authorization to sue a class of defendants which clearly included states. The *Fitzpatrick* Court emphasized that the Fourteenth Amendment was ratified after the Eleventh became part of the Constitution, and implied that earlier grants of legislative power to Congress in the main body of the Constitution might not contain a similar power to authorize suits against states. *Id.* at 456.

The holding in *Fitzpatrick* was expanded in *Hutto v. Finney*, 437 U.S. 678 (1978), where the Court permitted an individual to recover an award of attorney's fees against a state under the Civil Rights Attorney's Fees Awards Act of 1976 based on the infliction of constitutionally impermissible cruel and unusual punishment by the state's prison system. Because there was clear evidence of congressional intent to abrogate Eleventh Amendment immunity in the statute's legislative history, the Court allowed the award even though the statute did not expressly include states in the defendant class.

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[12] Abrogation refers to the ability of Congress to create a cause of action for money damages enforceable by a citizen suit against a state in federal court. *See, e.g..*, *United States v. Union Gas Co.*, 832 F.2d 1343-1345, n. 1 (3d Cir. 1987), *cert. granted*, 108 S. Ct. 1219 (1988).

Four years later, in City of Rome v. United States, 446 U.S. 156 (1980), the Court suggested that section two of the Fifteenth Amendment can also serve as a basis for congressional power to abrogate the Eleventh Amendment, although the Court decided the case based on general principles of federalism.

More recently, Congress' power to abrogate Eleventh Amendment immunity was sharply limited in Atascadero State Hospital v. Scanlon, 473 U.S. 234 (1985). Atascadero involved a suit by a disabled person against a state hospital for alleged employment discrimination. The suit was brought under the Rehabilitation Act of 1973, which the Court presumed was passed pursuant to section five of the Fourteenth Amendment. The statute provided for remedies against "any recipient of Federal assistance," a class that arguably included states. The Court did not address Congress' Article 1 powers, and held that even under the Fourteenth Amendment abrogation required "unequivocal statutory language." Id. at 242.

Atascadero is a retreat from the Court's position in Hutto, without specifically overruling that decision. After Atascadero, a statute must specifically include states in the defendant class, and, significantly, a state's mere participation in a federally-funded program under a federal statute does not demonstrate implicit consent to federal jurisdiction. For purposes of implied waiver, a court must find an "unequivocal indication that the State intends to consent to federal jurisdiction that would otherwise be barred by the Eleventh Amendment." Id. at 238, n.1.

In 1987, the Court reaffirmed its Atascadero holding in Welch v. State Dept. of Highways and Public Transp., 107 S.Ct. 2941 (1987). Welch involved a suit under the Jones Act, which covers seamen injured in the course of employment. Although the issue of waiver was not raised in the petition for certiorari, the Court considered the question of abrogation under the Jones Act.

The plurality assumed that Congress' authority to subject unconsenting states to suit in federal court is not confined to its Fourteenth Amendment powers. But it concluded that Congress did not abrogate state immunity in passing the Jones Act because, there, it did not express in unmistakable statutory language its intention to allow states to be sued in federal court. The Court also held that despite the factual similarities of Parden and Welch, the former was overruled to the extent that it was inconsistent with the requirement that an abrogation by Congress must be expressed in unmistakably clear language. Id. at 2948.

B. Congressional Abrogation under Article I.

To date, the Supreme Court has assiduously avoided addressing the issue of whether Congress, pursuant to its Article I powers, has the authority to abrogate Eleventh Amendment immunity. The Welch decision demonstrates that the Court will not reach the issue of Congress' Article I authority unless the statute before the Court meets the threshold "clear language" requirement established in Atascadero. This poses a problem with respect to many statutes, including the Copyright Act of 1976, passed by Congress pursuant to Article I prior to Atascadero. The issue of whether those statutes create a private cause of action that can be invoked against a state can only be tested if Congress amends the language of the statutes to clarify its intent to include states in the defendant class.

In spite of the Supreme Court's reluctance to do so, several lower federal courts have permitted abrogation of immunity under Congress' Article I powers.[13] Notably, in *Mills Music, Inc. v. Arizona*, 591 F. 2d 1278 (9th Cir. 1979), the U.S. Court of Appeals for the Ninth Circuit held that Congress abrogated state immunity when it passed the Copyright Act of 1909 under its Article I copyright and patent clause power.

During the period between *Fitzpatrick* and the later *Atascadero* decision, lower courts interpreted *Fitzpatrick* as the "*sub silentio* merging of the separate state consent requirement into the single inquiry of whether Congress has statutorily waived the state's immunity." *Peel v. Florida Department of Transportation*, 600 F.2d at 1080. There was some question of the continued validity of these decisions after *Atascadero*, but several lower courts have found congressional abrogation evidenced in an Article I statute even under the "clear language" standard.

In *Matter of McVey Trucking v. Illinois*, 812 F.2d 311 (7th Cir. 1987), *cert. denied* *sub nom.* *Edgar v. McVey Trucking Company*, 108 S. Ct. 227 (1987), the Seventh Circuit held that Congress, in enacting the Bankruptcy Code pursuant to its Article I powers to establish bankruptcy law, had made clear in the language of the code its intent to subject creditor states to federal causes of action. The court further found that Congress has the same authority under Article I, as under the Fourteenth Amendment, to abrogate Eleventh Amendment immunity; in fact, under any of its plenary powers Congress may create a cause of action for money damages enforceable against an unconsenting state in federal court.

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[13] *County of Monroe v. Florida*, 678 F.2d 1124, 1128-35 (2d Cir. 1982), *cert. denied*, 459 U.S. 1104 (1983); *Peel v. Florida Department of Transportation*, 600 F.2d 1070 (5th Cir. 1979); *Jennings v. Illinois Office of Education*, 589 F.2d 935 (7th Cir. 1979), *cert. denied*, 441 U.S. 967 (1979).

The Third Circuit reached the same conclusion-- that Congress has the power to abrogate pursuant to Article I-- in United States v. Union Gas Company.[14] In Union Gas, a suit was filed in federal court against the Commonwealth of Pennsylvania under the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA, or "Superfund"), a statute passed pursuant to Congress' Article I power to regulate interstate commerce.

The statute had been amended after Atascadero, and the Third Circuit found that the amendment met the "clear language" requirement. The appellate court also agreed with the McVey reasoning that no constitutional distinction existed between the Fourteenth Amendment and Article I for purposes of Eleventh Amendment abrogation, and that restraints upon Congress' plenary powers lie in the legislative and not judicial process. The requirement that Congress must clearly state its intention to abrogate, the court said, assures that congressional intent will be followed and judicial interpretation of statutes will be checked. Id. at 1355.

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[14] 832 F.2d 1343 (3d Cir. 1987), cert. granted, 56 USLW 2268, 108 S.Ct. 1219 (1988).

C. Prevailing Interpretations of the Eleventh Amendment.

There are three main interpretations of the effect of the Eleventh Amendment: (1) it is a federal court jurisdictional bar in both diversity and federal question cases; (2) it merely incorporates common law immunity; or (3) it applies only in diversity jurisdiction cases brought against state governments.

The first theory asserts that the Eleventh Amendment creates a constitutional restriction that precludes federal courts from hearing any suits against state governments, with the possible exception of suits brought under certain constitutional amendments passed after the Eleventh Amendment. This theory is premised on the assumption that Hans v. Louisiana stands for the proposition that the Eleventh Amendment is a constitutional bar to suits against a state by its own citizens as well as by citizens of other states. This theory assumes that the Amendment did not alter the Constitution, but merely reinstated the original understanding of its framers that Article III incorporated into the Constitution principles of common law sovereign immunity.

The analytical problem in perceiving the Amendment as a jurisdictional bar, however, is in reconciling this perception with the theory of consent and waiver. Because a true jurisdictional bar cannot be waived, a state's consent to suit or waiver of its Eleventh Amendment rights could not vest a federal court with judicial power. See, e.g., Sonsa v. Iowa, 419 U.S. 393, 398 (1975).

But it is also settled under current law that the bar on suits against states in federal court posed by the Eleventh Amendment is not wholly jurisdictional. Patsy v. Florida Board of Regents, 457 U.S. 496, 515-

16, n. 19 (1982). To the extent that it is not, federal courts may subject states to suit if Congress, pursuant to its granted powers, explicitly legislates against state immunity.[15]

The second main theory is that the Eleventh Amendment incorporates the common law immunity that states had, implicit in the Constitution, prior to *Chisholm*. In this perspective, the Eleventh Amendment clarifies that the provision in Article III concerning controversies between a state and citizens of another state does not provide a mechanism for making states unwilling defendants in federal court, and common law sovereign immunity survived to provide the same protection for states in any controversy with their own citizens. *Employees of the Department of Public Health & Welfare*, 411 U.S. at 292. Under this theory, a state can waive its immunity and consent to be sued by its citizens, either impliedly or expressly, because at common law the sovereign could waive his immunity. Moreover, because common law rules can be overridden by statute, a valid congressional statute can authorize suits against state governments by their own citizens (but not citizens of other states or countries) or authorize suits against state governments in their own courts.

However, the transition of the common law doctrine from monarchy to democracy was awkward. Traditionally, sovereign immunity arose in a unitary system, where there was one sovereign and many lesser citizens, and prohibited unconsented suit against a sovereign in his own courts or the courts of another sovereign. By contrast, the American states, on entering the Union, gave up a certain undefined degree of sovereignty to the national government--a power more than their coequal.[16] Thus, it would seem that in those areas where the states gave up part of their sovereignty to allow Congress to legislate for the welfare of the nation as a whole, the states likewise gave up their immunity from suit in federal court.

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[15] *See* *Quern v. Jordan*, 440 U.S. 332, 343-45 (1979); *Hutto v. Finney*, 437 U.S. 673 (1978).

One legal scholar has extended the above theory to adapt the traditional concept of sovereign immunity to a federalist government. While agreeing that the Eleventh Amendment merely reinstated common law sovereign immunity, she argues that a state's consent or waiver of its Eleventh Amendment and/or common law sovereign immunity is unnecessary to bring a state defendant into federal court if Congress, acting pursuant to its constitutional authority, creates a statutory cause of action against states.[17]

The third view of the Eleventh Amendment, promoted by a number of legal scholars today, holds that the Amendment merely restricts the diversity jurisdiction of the federal courts. This theory compares the structures of the Eleventh Amendment and Article III.

Section 2 of Article III identifies nine categories of cases and controversies which might be heard in federal courts. One of these categories--federal question jurisdiction--is defined in a separate clause, while diversity jurisdiction-- encompassing two of these categories (suits between a state and citizens of another state, and suits between a state and citizens or subjects of a foreign state)--is defined in two other clauses. Thus, because the language of the Eleventh Amendment parallels the language of those two clauses of Section 2 of Article III dealing with diversity jurisdiction, and because *Chisholm* only involved those clauses and did not implicate federal question jurisdiction in any way, it makes sense to view the Eleventh Amendment as restricting only diversity jurisdiction.[18]

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[16] Brown, State Sovereignty Under the Burger Court - How the Eleventh Amendment Survived the Death of the Tenth: Some Broader Implications of Atascadero State Hospital v. Scanlon, 74 Geo. L. J. 363, 369 (1985).

[17] Field, The Eleventh Amendment and Other Sovereign Immunity Doctrines: Part One, 126 U. Pa. L. Rev. 515 (1978); Field, The Eleventh Amendment and Other Sovereign Immunity Doctrines: Congressional Imposition of Suit Upon the States, 126 U. Pa. L. Rev. 1203 (1978).

Justice Brennan, a strong advocate of this theory, has argued repeatedly that in suits outside the literal scope of the Amendment, state sovereign immunity exists only by virtue of the common law.[19] In any cases arising under federal law, therefore, Congress has the power to eliminate state immunity. Brennan emphasizes the fact that Justice Iredell's dissent in *Chisholm* rested on the absence of a statutory remedy and not on Congress' lack of constitutional power. He justifies the dismissal of the suit in *Hans* on the basis that "no federal cause of action supported the plaintiff's suit and that state-law causes of action would of course be subject to the ancient common-law doctrine of sovereign immunity." Atascadero, 105 S. Ct. at 3177 (Brennan, J., dissenting).

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[18] *See* W. Fletcher, *A Historical Interpretation of the Eleventh Amendment: A Narrow Construction of an Affirmative Grant of Jurisdiction Rather than a Prohibition Against Jurisdiction*, 35 Stan. L. Rev. 1033, 1057-58 (1983); Gibbons, *The Eleventh Amendment and State Sovereign Immunity: A Reinterpretation*, 83 Colum. L. Rev. 1889, 1902 (1983); C. Jacobs, *The Eleventh Amendment and Sovereign Immunity* 162-63 (1972).

[19] *Welch v. Texas Dep't Highways and Public Transp.*, 107 S. Ct. 2941, 2958 (1987) (Brennan, J., dissenting); *Green v. Mansour*, 474 U.S. 64, 106 S. Ct. 423, 429 (1985); *Atascadero State Hospital v. Scanlon*, 473 U.S. 234, 105 S Ct. 3142, 3150 (1985) (Brennan, J., dissenting); *Pennhurst State School & Hosp. v. Halderman*, 465 U.S. 89, 125 (1984) (Brennan, J., dissenting); *Employees of the Dep't of Public Health & Welfare v. Department of Public Health & Welfare*, 411 U.S. 279, 313-14 (1973) (Brennan, J., dissenting).

D. Application of the Eleventh Amendment in Copyright Infringement Suits Against States.

The first case in this century addressing the question of whether a state agency could be sued in federal court for copyright infringement was Wihtol v. Crow, 309 F.2d 777 (8th Cir. 1962). This was two years before the Supreme Court conceived the Parden doctrine of implied waiver of immunity. In Wihtol, the Eighth Circuit held that although a state school's choir director infringed a composer's copyright in a musical composition, the school was entitled to dismissal because it was a state agency that was immune from suit for money damages in federal court. The choir director, however, was held individually liable for his infringement.

Seventeen years later, the Ninth Circuit, in Mills Music, Inc. v. Arizona, 591 F.2d 1278 (9th Cir. 1979), considered the issue of Eleventh Amendment immunity in copyright suits, and held the State of Arizona amenable to suit in federal court for the alleged unlawful use of a copyrighted musical composition for a state fair promotion.

Initially, the Mills court concluded that Arizona had impliedly waived its immunity under the Parden line of cases: Congress, in passing the Copyright Act of 1909, had authorized suit against a class of defendants that included states, and Arizona had entered into the federally regulated activity of copyright use.

The Mills court also found that Congress had abrogated state immunity in passing the Copyright Act of 1909. Citing Fitzpatrick, the court concluded that the copyright and patent clause of the Constitution empowered

Congress to subject infringing states to suit in federal court despite the Eleventh Amendment: when "Congress grants an exclusive right or monopoly, its effects are pervasive; no citizen or State may escape its reach." Id. at 1285 (emphasis supplied), quoting Goldstein v. California, 412 U.S. 546 (1973).

Finally, the court noted that the state voluntarily engaged in a federally regulated commercial activity, and that the award granted by the lower court was not so large as to interfere with the state's budget. Id. at 1286. Arizona was held liable for copyright damages and attorney's fees.

The first Eleventh Amendment suit under the Copyright Act of 1976 was Mihalek Corp. v. Michigan, 595 F. Supp. 903 (E.D. Mich. 1984), aff'd on other grounds, 814 F.2d 290 (6th Cir. 1987). This suit alleged state infringement of an advertising campaign promoting tourism, business and agricultural enterprise. Significantly, the lower court judge rejected the Mills Music rationale.

The district court reasoned that under Edelman v. Jordan, the 1909 Act should not be read to abrogate Eleventh Amendment immunity, because a right against infringement "is deserving of no more protection than is the right to benefits for the aged, blind, and disabled," for which the Supreme Court had denied "retroactive" monetary relief in Edelman. Id at 906; see Edelman, 415 U.S. at 669. The Mihalek court held that despite the protection granted copyright owners by Congress under the federal copyright scheme, the Eleventh Amendment barred federal jurisdiction for suits for money damages that would be paid out of state funds. The court acknowledged, however, that under Ex Parte Young, the copyright owner could sue in federal court for an injunction against future infringement by Michigan. 595 F. Supp. at 906.

The last copyright/Eleventh Amendment case to address the immunity issue prior to the Supreme Court's holding in Atascadero was Johnson v. University of Virginia, 606 F. Supp. 321 (W.D.Va. (1985), which held that both the 1909 and 1976 Copyright Acts reflect Congress' intent to abrogate Eleventh Amendment immunity in copyright infringement suits. Id. at 324. However, every court addressing the issue since Johnson has decided in favor of state immunity.

In Woelffer v. Happy States of America, Inc., 626 F. Supp. 499 (N.D. Ill. (1985), an agency and official of the state of Illinois brought a declaratory judgment action seeking to establish that they did not infringe the defendant's work, and that the Eleventh Amendment barred any counterclaim of infringement asserted by the defendant. The defendant counterclaimed seeking declaratory relief, prospective injunctive relief, and attorney's fees and costs.

The court addressed the issues of state waiver and congressional abrogation of immunity, holding that while the state partially waived its immunity by bringing the action in federal court, the court had jurisdiction only over the declaratory portion of the defendant's counterclaim (the portion raised by the state's complaint), and not the portion seeking injunctive relief, attorney's fees, or costs. Although both declaratory and injunctive relief are typically considered prospective, the court found that in this particular case injunctive relief was more intrusive than damages.[20]

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[20] The Eleventh Amendment bars suits against state officials when "the State is the real, substantial party in interest." Pennhurst State School v. Halderman, 465 U.S. 89, 101 (1984). The State is the real party in interest when the judgment would "interfere with the public administration, or if the effect of the judgment would be to restrain the Government from (continued...)

The court further noted that Atascadero requires a state's waiver of immunity to be unequivocally expressed. Id. at 503.

The court also held, under the Atascadero standard, that Congress did not express clearly in the language of the Copyright Act of 1976 its intention to abrogate the Eleventh Amendment. Thus, the defendant's claims for injunctive relief and attorney's fees and costs against the state agency were barred. The court would have permitted the state official to be sued for prospective injunctive relief.

Similarly, in Cardinal Industries, Inc. v. Anderson Parrish Assoc., Inc., No. 83-1038-Civ-T-13 (M.D. Fla. Sept. 6, 1985) (unpublished), involving the use of copyrighted architectural plans for a student housing project by a Florida state university, the court concluded that the Eleventh Amendment was neither waived nor abrogated. The court did not discuss either copyright cases or the Atascadero decision, and the Eighth Circuit affirmed the district court's opinion without discussion. 811 F.2d 609 (8th Cir. (1987).

A year later, the U.S. District Court for the Western District of Virginia reversed its position taken in the Johnson decision, and held in Richard Anderson Photography v. Radford University, 633 F. Supp. 1154 (W.D.

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[20] (...continued)
acting, or to compel it to act." Id. at 101 n.11.

Customarily the fiction is employed that an official acting outside his constitutional authority can find no state immunity to share, and his illegal actions can be enjoined. Thus, no court has had to reach the question of whether one can enjoin a state per se; a state acts through its agents and the illegal action of a state is usually stopped by enjoining the agent. However, if an injunction would not lie against a state official where the effect would be to interfere with the public administration of a state, it would certainly appear that such relief would also be barred against the state itself.

Va. 1986), that Congress does not have the authority to abrogate Eleventh Amendment immunity except under section 5 of the Fourteenth Amendment unless a state has waived its immunity.

Finding no evidence of express waiver of immunity, the court examined whether the Commonwealth of Virginia, by operating a university, had impliedly consented to suit in federal court for copyright infringement. The court determined that the Commonwealth had not so consented, requiring that the showing of consent for waiver meet the "unequivocal indication" standard of Atascadero. Id. at 1157.

The court distinguished Parden, reasoning that because the state was compelled to use copyrighted works in carrying out the traditional governmental function of operating a university, its activities were analogous to the state activities in Edelman and Atascadero, in which waiver was not implied. Id. at 1160. Thus, Virginia did not waive its immunity, and was immune from a damage suit in federal court.

On appeal, the Fourth Circuit affirmed the district court's opinion, 852 F.2d 114 (4th Cir. 1988).[21] Using the stringent Atascadero standard for both direct abrogation and implied waiver of Eleventh Amendment immunity, the appellate court held that the Copyright Act as a whole does not clearly and unequivocally indicate that states can be sued, and that Congress has not exacted the consent of states as a condition of participation in the Copyright Act. Id. at 120-22.

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[21] The Supreme Court recently denied certiorari in Radford, 57 USLW 3536 (1989), leaving intact the three main points decided by the Fourth Circuit: that the Atascadero standard will be applied for issues of both direct abrogation and implied waiver; that the Copyright Act of 1976, as a whole, does not clearly and unequivocally indicate that states can be sued; and, finally, that Congress has not exacted the consent of states as a condition of participation in that Act. However, the Fourth Circuit's opinion does not, except in the dissent, address the issue of Congress' authority to abrogate under Article I, and the Supreme Court is expected to deliver an opinion on that question in Union Gas later this year. Thus, assuming that Congress does have such power, the Copyright Remedy Clarification Act would amend the Copyright Act to meet the Atascadero standard and reflect its intention to hold states liable for copyright and mask work infringement.

Circuit Judge Boyle filed a strong dissent from the majority on the issue of Copyright Act abrogation of Eleventh Amendment immunity. Although he agreed with them that the "anyone" language in section 501(a) of the Act, 17 U.S.C. sec. 501 (a) (1976), does not in itself sufficiently indicate an intent to abrogate, 852 F.2d at 126 (emphasis in original), he believed that the Act taken as a whole does declare such an intent, Id., and that Union Gas and McVey Trucking provide sufficient authority for Congress to abrogate the Eleventh Amendment under any of its plenary powers. Id. at 123.

Finally, in BV Engineering v. UCLA, 657 F. Supp. 1246 (C.D. Cal. 1987), the U.S. District Court for the Central District of California, in light of the Atascadero holding, overruled the Ninth Circuit's precedent in Mills Music. In BV Engineering, the plaintiff alleged infringement of seven copyrighted computer programs by the university, and sought damages.

Initially, the district court addressed the issue of abrogation under Article I. Id. at 1248. It assumed that the state did not impliedly waive its immunity, but agreed with the McVey Trucking court that Congress can abrogate immunity under any of its plenary powers. Id. However, after analysis of the statutory language of the Copyright Act of 1976, the court concluded that the Act does not clearly express congressional intent to abrogate state immunity. Id.

On appeal, the Ninth Circuit affirmed the lower court's grant of summary judgment for the university. The appellate court used a three-pronged test to establish that there was no waiver of Eleventh Amendment immunity: California has not expressly consented to suit in federal court, there is no consent provided in either a state statute or the constitution, and there is no indication in the Copyright Act of 1976 that Congress intended to condition states' participation in the national copyright scheme on waiver of immunity. Id. at 1397.

The Ninth Circuit assumed, without deciding, that Congress has the power under Article I to abrogate state Eleventh Amendment immunity, but concluded that it had failed to do so in the Copyright Act. Id. As only a general authorization for suit, the "anyone" language in section 501(a) of the remedies chapter was not considered adequate to establish congressional intent to abrogate state immunity under Atascadero or Welch; nor were other provisions of the Act a sufficient basis to establish intent since they susceptible to more than one reasonable interpretation. Id. at 1398-99. Significantly, the Ninth Circuit required copyright plaintiffs to meet the Atascadero standard, even though without a federal forum they would be left remediless. Id. at 1400. The Supreme Court denied certiorari.[22]

IV. Copyright Remedy Clarification Act.

Mr. Chairman, as you know the Copyright Office in its report recommended remedial legislation to clarify what we perceived to be the original intent of the Congress in passing the Copyright Act of 1976. Your bill, S. 497, would clarify that states and state instrumentalities are fully subject to suit in federal court if they infringe copyrights or mask works. The Copyright Office supports enactment of S. 497.

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[22] 57 USLW 3614 (1989).

Owners of copyright and mask works would have available to them the full panoply of civil remedies: injunctive relief, actual and statutory damages, and seizure of infringing articles. Of course, no criminal penalties apply. In the case of copyrights, criminal penalties apply only to commercial activities. The Semiconductor Chip Protection Act contains no criminal penalties.

The bill, if enacted, would not apply to cases filed before the date of enactment. The Copyright Office supports this limited qualification on retroactivity. As we understand the qualification, the intent is to avoid interference with any pending cases. This provision does not mean that states cannot be sued for past infringements, subject of course to the statute of limitations found in section 507 of the Copyright Act (civil actions must be commenced within three years after the claim accrues). It is entirely appropriate that the Copyright Remedy Clarification Act have limited retroactive effect since it merely clarifies the intent of the Congress in 1976.

V. Conclusion.

Authors and copyright proprietors have demonstrated the potential for immediate harm from the uncompensated use by states and state entities of works protected under the federal Copyright Act. The public would lose as well--other groups of consumers would bear the brunt of increased costs; without compensation, the incentive to create would be significantly diminished and fewer works published.

The language and history of the Copyright Act of 1976 demonstrate that Congress intended to hold states, like other users, liable for copyright infringement. Section 110 exempts certain acts of governmental bodies. The former manufacturing clause (sections 601 and 602) exempted from copyright liability certain importations by states. If Congress had not intended states to be subject to damage suits in federal court, Congress need not necessarily have included express exemptions from copyright liability for certain state activity. The legislative history of the Copyright Act demonstrates that the debate focused on the extent to which Congress should exempt the states from full liability. No one suggested that the states were already immune from liability as to damages under the Eleventh Amendment. No state official requested total exemption from copyright liability.

There is no policy justification for full state immunity to copyright damage suits. Injunctive relief alone is inadequate. Nor would it be fair to leave the state damage-proof and require copyright owners to seek out some compensation through suits against state officials as individuals. During the information-gathering phase of preparing the Copyright Office Report, no state official made any policy argument that the states should be exempt from copyright liability.

The current legal predicament arises from broad application of new constitutional doctrine in contexts not fully considered by the Supreme Court. Good copyright policy requires that the states be subject to copyright liability, except to the extent Congress legislates specific, narrow exemptions for nonprofit uses. State representatives have not disputed this legislative policy. They recognize that respect for copyright law and the property rights conferred by the law is good public policy. As a practical matter, states continue to buy books, computer programs, and other copyrighted works. They acquire licenses for the performance of music at non-exempt school events.

I urge Congress to pass the Copyright Remedy Clarification Act expeditiously. It would reaffirm Congress' intent regarding the liability of states under the Copyright Act, while meeting the "clear language" requirement of Atascadero. It would not in any way change the substantive rights of copyright owners or states, since it merely restores the careful balance that was struck between authors and the public when the 1976 Act was drafted. The Copyright Office knows of no opposition to this legislation.

The Register of Copyrights
of the
United States of America

Library of Congress
Department 100
Washington, D.C. 20540

(202) 287-8350

June 15, 1989

The Honorable Dennis DeConcini
Chairman
Subcommittee on Patents,
Copyrights and Trademarks
Washington, D. C. 20510-6275

Dear Senator DeConcini:

It is the understanding of the Copyright Office that S. 497, if enacted, would not apply to cases filed before the date of such enactment. This reading is consistent with the intent to avoid interference with any pending cases. However, states could be sued for past infringements, subject to the three year statute of limitations for civil actions in section 507 of the Copyright Act. To allow suits against states, outside the scope of the statute of limitations in the Copyright Act, would create a separate class of actions with a much longer time frame than was contemplated by Congress, and would require further amendment of the Act. The three year statute of limitations provision has been part of the federal copyright law since 1909. It is a reasonable period for this type of law, which is analogous to a civil tort. I would not favor a change in the statute of limitations provision. Copyright owners, to my knowledge, have not requested such a change.

If I can be of any further assistance, please feel free to contact me.

Sincerely,

Ralph Oman
Register of Copyrights

RO/mg

Enclosure

QUESTIONS FOR MR. RALPH OMAN

Register of Copyrights

1. Why does the copyright office support the provision of S. 497 that would make its clarification of the law prospective only?

If indeed S. 497 represents a clarification of what Congress intended in 1976, why shouldn't its provisions apply to any infringing activity that has taken place in the interim? Weren't these acts infringing acts throughout the whole period?

The Register of Copyrights
of the
United States of America

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Washington, D.C. 20540

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July 5, 1989

The Honorable
Dennis DeConcini
Chairman, Subcommittee on Patents,
  Copyrights and Trademarks
United States Senate
Washington, D.C. 20510-6275

Dear Senator DeConcini:

In response to your recent request concerning computer software rental legislation, I am submitting the following responses. If I, or the Copyright Office, can be of further assistance to you or your staff, please do not hesitate to contact me.

1. Would the wide-spread use of enforceable "shrink wrap" licensing agreements do an adequate job of protecting copyright owners instead?

The question, if not the problem, surrounding the use of shrink-wrap licenses is their ability to withstand judicial scrutiny. To date, there are no reported cases addressing the enforceability of shrink-wrap licenses, although at least one state has adopted legislation providing that they are binding and enforceable if certain conditions are met.[1]

A shrink-wrap license provides that a user who breaks the seal of the software's cellophane package or uses the program is bound by the terms and conditions of the license agreement included in the package. Under a shrink-wrap license arrangement, therefore, the user's act of opening the software package allegedly constitutes the user's acceptance of the terms of the license. It is obvious, however, that such an arrangement is nothing more than an adhesional, unilateral agreement. Such agreements have been traditionally frowned upon by courts due to the absence of consideration from the seller. If shrink-wrap licenses were clearly enforceable under state law, then the argument for the need of computer software rental legislation would be considerably weakened, even though one could argue that a state remedy alone is a poor substitute for a clear national standard enforceable in federal courts. However, until the legitimacy and enforceability of shrink-wrap licenses is known, the extent of their adequacy in protecting software owner's interests will remain speculative.

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[1] See, LA. REV. STAT. ANN. §§51:1963-65 (West 1985). Several aspects of this law have been adjudicated by the 5th Circuit as being preempted by the federal copyright laws. See, Vault Corp. v. Quaid Software Ltd., 847 F.2d 255 (5th Cir. 1988). This case did not, however, address the enforceability of shrink-wrap licenses under state law.

2. **What other factors, besides "shrink-wrap licenses" and anti-copying devices, explain why the computer software rental industry has yet to take off?**

In the opinion of several of the software representatives who testified at the hearing on S. 198, the rental business has indeed "taken off." ADAPSO cited a recent study compiled by Future Computing, Inc. of Dallas that, in the United States alone, one illegal software copy is in use for every legal copy. How much of this is directly attributable to software rental is unknown, or at least was not included in the testimony. From a logical standpoint, however, it would seem to make sense that the unrestricted ability to rent software coupled with the ease with which it can be copied would contribute to a high theft rate.

Concerning the issue of why the software rental business has not blossomed, the Copyright Office is without hard empirical evidence. However, we can speculate that a very likely reason explaining the slow emergence of a software rental industry is the slow penetration of computers into the home market as compared with other electronic mediums. Unlike phonorecords or video cassette recorders, there has not been a proliferation of home computers. It is certainly not as common to have a home computer as it is to own a stereo sound system or VCR system. However, once home computers become more widespread, then the demand for software will likely rise and with it the interest in renting, and subsequently copying, software.

As to why software rental has not taken firm hold in the business marketplace, once again the Copyright Office is without concrete evidence. However, at least in the case of large business firms, more is required of the software manufacturer than simply a sale. Constant updating of software is often necessary, requiring the large firm to maintain a constant relationship with the software manufacturer. The nature of these relationships reduces the likelihood that a firm would merely obtain a copy of a particular program and subsequently reproduce it time and again. In the case of the small business firm, however, that only requires a program for very specific needs, the likelihood of renting and copying the program would increase.

Sincerely,

Ralph Oman
Register of Copyrights

Senator DeConcini. Mr. Oman, thank you very much.

A witness who will testify this morning is going to argue that S. 497 is premature because no massive amount of infringement has yet taken place and because the subcommittee and the Congress have not been provided with any real data showing injury. In your investigation of this issue, were you able to discover any data or information showing injury?

Mr. Oman. Mr. Chairman, the notion of exemption from liability is fairly recent. I think it might be premature to draw any conclusions from the fact that we do not have a great deal of hard evidence.

The Copyright Office report itself did not cite specific examples of massive infringement by States or State entities. However, there were several comments pointing to the likelihood of infringement.

Let me ask Ms. Schrader to comment on the report.

Senator DeConcini. Please do.

Ms. Schrader. There was evidence presented to us about the great potential for damage to the copyright owners, especially with respect to educational publishing. As you mentioned in your own opening statement, the State entities are major purchasers of that material, so if one did allow the principle to continue that there is no liability, at some point one would logically conclude that there would be great harm because States might take advantage of the loophole in the law.

At a minimum, there would be sloppy practices, as Mr. Oman said, and an expansion of fair use. This would add up to harm.

Senator DeConcini. So it might be considered prevention and anticipation rather than reaction to what we think is coming down the road?

Ms. Schrader. Yes, it would really just confirm what the Congress had already decided in 1976 in passing the general revision.

Senator DeConcini. Mr. Oman, the Supreme Court is presently considering a non-copyright related case under the 11th amendment. The case is *U.S.* v. *Union Gas.*

That case examines the issue as to whether the Congress has abrogated the 11th amendment under article I of the Constitution. Could you briefly discuss the effects of the *Union Gas* decision on S. 497?

Mr. Oman. I would like to ask the general counsel to answer that question.

Senator DeConcini. Dorothy.

Ms. Schrader. As I understand the issue, it is a question of whether Congress would in fact have the power to abrogate 11th amendment immunity pursuant to an article I power of the Congress. The *Atascadero* case dealt with a 14th amendment power.

The third circuit, in the *Union Gas* case, has already held that Congress has the power under article I to abrogate 11th amendment immunity. The case is before the Supreme Court now, of course. If the court affirms that decision of the third circuit, then it would be clear that Congress has the authority to pass S. 497.

Senator DeConcini. And if they hold the other way?

Ms. Schrader. If they hold the other way, then one would have to seek a different remedy. The Copyright Office suggested possibly conferring copyright jurisdiction on State courts for suits against States.

Senator DeConcini. Mr. Oman, we have received suggestions that S. 497 include patent law as well as copyright law. Did the Office have occasion to examine this question in their study of the immunity issue, and if so, what did you come up with that might be appropriate for amendment to S. 497?

Mr. Oman. We did not specifically study the problem on the patent side of the shop. I have heard from a variety of sources that it is a problem and one that they would like to address.

We think that the urgency at the present time is on the copyright side of the shop, so we would urge you to move forward with your bill and consider the patent issue in the fullness of time.

Senator DeConcini. Your recommendation is that we do not address that now?

Mr. Oman. I think it would be premature at this point. The issues are not yet brought into clear enough focus to move forward.

Senator DeConcini. Thank you very much. We appreciate your testimony this morning.

Our next panel of witnesses consists of James Lawrence Healy, vice president of sales, Enterprise Media Inc.; Mr. Robert Schmitz, chairman, president and chief executive officer of Richard D. Irwin, Inc.; and Mr. Dave Eskra, chairman and chief executive officer of Pansophic Systems, Inc.

We thank you for being here today. Your full statement will be included in the record, so you may summarize.

We will start with you, Mr. Healy.

STATEMENT OF JAMES LAWRENCE HEALY, JR., VICE PRESIDENT OF SALES, ENTERPRISE MEDIA, INC., BOSTON, MA

Mr. Healy. Thank you, Mr. Chairman. I would like to first offer my statement and the statement of the Copyright Remedies Coalition for the record.

Senator DeConcini. They both will appear in the record.

Mr. Healy. My name is James Healy. I represent my own company, Enterprise Media in Boston, the International Communications Industries Association, and the Copyright Remedies Coalition.

My company is a small company with 10 employees. We are in the business of production of videos for the educational and the business markets.

We are very concerned with the illegal copying of our products. They are high-quality products with a shelf life of probably 2 years. We can only hope to sell approximately 1,500 at a maximum of any given product and the margin is so small that any amount of copying that might take place will take away from any small profits that we might make.

Quite frankly, we make more money from our business films than from our educational line. We want to continue with high-quality educational products for educational institutions. But recent court decisions threaten our educational markets. These cases draw a line between private and State-run institutions that is hard to understand. It is a distinction without a difference between State institutions and private institutions.

I would also like to offer one of our products to the committee today. It is a five-part series, a retrospective of the Presidency. A lot of time and effort has gone into this series.

In the final analysis, if S. 497 does not rectify the problem, the student will really be the victim because we will not continue with these educational videos. We simply can not afford it.

Last night we received news from Mr. Richard Roxburg of Melrose Films in London—he is our distributor in London. We have another six-part series called the Entrepreneurs. It is a series on the business history of America, and we have discovered that they are being knocked off in Taiwan and sold very cheaply. There is no mistake; they are not trying to hide anything; it is an exact copy of our series.

Therefore, we are very concerned that remedies like the injunctions and the cease and desist are not enough. In the final analysis, there is no real deterrent so people will continue to behave this way.

What kind of example is it to set students, that we can copy with no problem? We can just take the copyright and infringe upon it. Students have to adhere to strict guidelines concerning plagiarism. It is all in the same area. So I really strongly support S. 497 and urge that the committee and the Senate come to a quick decision on it.

That concludes my statement this morning, Mr. Chairman. Thank you very much.

[The prepared statements of Mr. Healy and the Copyright Remedies Coalition follow:]

Summary of Statement of James L. Healy, Jr.
On S. 497
The Copyright Remedy Clarification Act

Mr. James L. Healy, Jr. submits this statement in support of S. 497, the Copyright Remedy Clarification Act, on behalf of his company, Enterprise Media, located in Boston, Massachusetts, as well as the International Communications Industries Association and the Copyright Remedies Coalition.

Mr. Healy is Vice President of Enterprise Media, a small, ten-person business engaged in the creation and marketing of high-quality videos for the educational and training markets. Approximately one-half of Enterprise Media's sales are to institutions of higher education, many of which are state-run universities and colleges. For this reason, Mr. Healy is extremely troubled by the current legal situation, which insulates these state institutions from damage lawsuits for violations of the Copyright Act.

Small businesses such as Enterprise Media feel vulnerable given the current state of the law. They do not understand why state colleges and universities, many of which are copyright owners themselves, should be immune from damage suits under the Copyright Act when they make unauthorized copies of valuable educational videos. To companies such as Mr. Healy's, the adverse impact of copyright infringements is the same, irrespective of whether the violator is a state or a private institution.

Mr. Healy's concern in this area is heightened by the fact that his small company produces high-quality, expensive videos that are aimed at a narrow market, and realize an even narrower profit margin. Typically, his company can expect to sell only 1,000 copies during the life of a video title. If unauthorized copying results in a loss of even 10% of these potential sales, the impact on Enterprise Media is substantial.

Mr. Healy is afraid that, unless S. 497 is enacted, companies such as his will either move away from the educational marketplace or ultimately be forced out of business by unauthorized and unanswered copying. In either case, the students and professors at institutions of higher learning can be counted among the losers, as fewer new and stimulating titles designed to meet their needs will be produced. For these reasons, Mr. Healy urges the prompt enactment of S. 497.

STATEMENT OF JAMES L. HEALY, JR.

ON S. 497
THE COPYRIGHT REMEDY CLARIFICATION ACT

BEFORE THE SUBCOMMITTEE ON PATENTS, COPYRIGHTS AND TRADEMARKS

SENATE JUDICIARY COMMITTEE

101st CONGRESS, FIRST SESSION

MAY 17, 1989

Mr. Chairman, my name is James L. Healy, Jr. I am Vice President of Enterprise Media, located in Boston, Massachusetts. Enterprise Media is a small, ten-person business engaged in the creation and marketing of off-the-shelf and custom video programs for the educational and training markets.

I appear here today on behalf of my own company as well as the International Communications Industries Association (ICIA) and the Copyright Remedies Coalition (CRC). ICIA, of which Enterprise Media is a member, is a trade association of over 800 video, computer, and audio-visual firms, including the producers of videos, films, and computer software. ICIA is a member of the CRC, which is made up of a diverse group of copyright interests drawn together by their concern about recent court decisions that threaten their continued ability to safely market their works to states.

Mr. Chairman, I welcome the opportunity to share with the Subcommittee our strong support for your bill, S. 497, The Copyright Remedy Clarification Act.

I am not a lawyer. I am not here today to discuss the ins and and outs of the Copyright Act and the various court cases interpreting it. Both the Register of Copyrights and the CRC in its written statement have done an admirable job of analyzing the relevant legal issues and putting them in perspective for the Subcommittee.

I am a small businessman. I am here today to give the Subcommittee an insider's look at S. 497 and how it would help copyright owners, particularly those who run small businesses that deal extensively with state colleges and universities.

The future financial well-being of companies like mine is tied in large part to our ability to market our products to state institutions. Approximately one-half of Enterprise Media's overall sales are made to universities and colleges, many of which are state-run.

It is my company's dependence on the state higher education market that prompts me to appear today and share with you our recent sense of vulnerability. I was stunned when my lawyers explained to me that as a result of recent court cases, a substantial segment of our market is beyond the reach of the most important remedy provided in the Copyright Act. Every video that Enterprise Media has sold, is selling and will sell in the future, to states is at risk. I asked how it is that state universities, unlike private colleges and our corporate clients, cannot be sued for compensation when they systematically copy our product without authorization.

To me, the line drawn between state and private entities in this context is a distinction without a difference. It does not make any difference whether Enterprise Media's products are unlawfully copied by a state or a private institution. The impact on our bottom line, on the future viability of our company, is the same.

Mr. Chairman, Enterprise Media is committed to producing high quality video products. Many of these works are developed, at least in part, for institutions of higher learning. For example, one of our releases, The Modern Presidency With David Frost, has proven quite popular with political science professors and students at colleges and universities. This five-part series represents the first time that Mr. Frost's landmark interviews with Presidents Nixon, Ford, Carter, Reagan and Bush are available on videocassette.

But, such high quality products are expensive to produce, especially for a small company such as ours that is undercapitalized and creates products on speculation. Moreover, our videos are aimed at a narrow market, and realize an even narrower profit margin. Typically, we expect to sell only 1,000 copies during the life of the title. If unauthorized copying robs us of even 10% of these potential sales, the impact on our company is substantial.

Unless the current legal situation is corrected, our company will be reluctant to produce new, high quality titles for higher education. Instead of taking the risk of producing works for such vulnerable markets, we may well be forced to direct our efforts exclusively to the private, non-educational sector. Other producers of educational videos may be forced to do the same. Small businesses that do not reorient their marketing, and continue to deal extensively with colleges and universities, may be forced out of business.

Under either scenario, there will be a decrease in the number of new titles available to college students and teachers. Under either scenario, the ultimate victim is the learner.

It is my understanding that S. 497 is designed to prevent just such a result. This legislation is intended to make sure that state colleges and universities have a strong incentive not to use modern technologies to copy our copyrighted works without permission.

Make no mistake about it, Mr. Chairman. Your bill is needed to deter such activities by state universities and colleges. The current legal situation is simply not adequate for this purpose. Let me share with you some of the reasons why this is so.

First, injunctive actions are not the answer. Injunctions can only stop future unauthorized copying. They are of little help to the small business whose market has been substantially diminished before it even steps into a courtroom. Moreover, injunctive actions are expensive to pursue, particularly for small companies such as Enterprise Media.

Second, our industry has in the past relied on cease and desist letters to notify apparent infringers that they must stop copying valuable videos and films, or face a lawsuit seeking damages and injunctive relief. If copyright owners can only seek injunctive relief and not damages, our cease and desist letters will have little practical effect.

Third, quite simply, the current situation leaves companies like Enterprise Media without an opportunity to go to court to mend the injury caused by unauthorized copying. Our attorneys tell us that we can't go to federal court to seek relief because of the impact of these court decisions. They also say that state and local courts are unavailable because only federal courts can hear copyright infringement cases. Your bill will help ensure that injured copyright owners have an opportunity for a meaningful day in court.

Mr. Chairman, your bill will give us the tools we need to help prevent such infringements and to help keep our college markets secure. Your bill will help relieve the sense of vulnerability that overwhelms those of us who sell copyrighted works to states. This bill confirms the simple principle that those who benefit from the Copyright Act must also fulfill their responsibilities under this law. States are copyright owners. They enjoy the full range of protections available under the Copyright Act. It is only fair that they be subject to appropriate penalties when, acting as copyright users, they fail to respect the property rights of others.

I urge you and your colleagues to move quickly to enact this legislation before our markets are harmed beyond repair.

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Summary of Statement of the Copyright Remedies Coalition on S. 497 The Copyright Remedy Clarification Act

The Copyright Remedies Coalition (CRC) strongly supports enactment of S. 497, the Copyright Remedy Clarification Act.

S. 497 will reiterate the original intent of Congress when it enacted the 1976 Copyright Act -- that states can be sued for damages when they use without permission the valuable property of copyright owners. This legislation responds to recent court decisions holding that the Eleventh Amendment immunizes states from copyright infringement damage suits. The Copyright Office has recommended that Congress pass remedial legislation in response to these court cases to make clear that states are liable for damages under the Copyright Act. The Copyright Office has specifically endorsed the Copyright Remedy Clarification Act.

The current legal situation poses a serious threat to copyright owners who market their works to states and state entities. Copyright owners are currently deprived of access to the most effective deterrent to the unauthorized use of protected property -- damage lawsuits. Large and small businesses as well as individual authors are at risk. Ultimately, the public will be the big loser as the quantity and quality of copyrighted works now available to state universities and other state entities diminishes.

S. 497 will restore copyright owners' ability to go to court to seek effective remedies when their valuable property rights are violated. Enactment of this bill will also ensure that there is in place a strong deterrent to copyright infringements by states by making damages available once again in such cases.

On the other hand, enactment of S. 497 will not change the terms under which States are liable for copyright infringement. Nor will S. 497 expand the substantive rights of copyright owners under the law.

In conclusion, the Copyright Remedies Coalition urges the prompt enactment of S. 497 so that the problems brought about by recent court decisions can be nipped in the bud. Prompt action will help prevent the erosion of currently vulnerable markets, and ultimately help to ensure that the quality of education in our country is not diminished.

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STATEMENT OF THE COPYRIGHT REMEDIES COALITION

ON S. 497
THE COPYRIGHT REMEDY CLARIFICATION ACT

BEFORE THE SUBCOMMITTEE ON PATENTS, COPYRIGHTS AND TRADEMARKS

SENATE JUDICIARY COMMITTEE

101st CONGRESS, FIRST SESSION

MAY 17, 1989

Mr. Chairman, the Copyright Remedies Coalition (CRC) welcomes this opportunity to submit this Statement in support of S. 497, the Copyright Remedy Clarification Act. CRC is extremely grateful to you, Mr. Chairman, and Senators Simon and Hatch for taking the lead in introducing this important legislation. We also greatly appreciate the efforts of Representatives Kastenmeier, Moorhead, Berman, Morrison and Moakley, who are sponsoring H.R. 1131, the companion bill to S. 497.

CRC is composed of a broad array of copyright interests (see Attachment A), including the producers and creators of computer data bases, software, scholarly books and journals, textbooks, educational testing materials, microfilm, educational video materials, music and motion pictures.

The purpose of this legislation is simple and straightforward: to reiterate the original intent of the 1976

Copyright Act -- that states can be sued for damages for copyright infringements.

This legislation responds to recent federal court decisions holding that states are immune from damage infringement suits in federal courts. More specifically, the courts in these cases determined that the 1976 Copyright Act lacks the specific and unequivocal language needed to overcome the immunity from such suits afforded states under the Eleventh Amendment to the Constitution.

These judicial rulings pose a serious threat to the many copyright intensive businesses that market their works to states and state instrumentalities. Large and small businesses, as well as individual authors, are at risk. Unless these decisions are offset by congressional action, the ultimate loser will be the public, as the quantity and quality of copyrighted works now available to state universities and other state entities will inevitably diminish.

The fact that federal law preempts state jurisdiction over copyright cases means that these decisions deny copyright owners any forum in which to bring copyright infringement damage actions against states. The only relief left to aggrieved copyright owners is an injunctive action, which affords only prospective relief from infringements by the states. Because injunctive actions lack the deterrent effect inherent in damage suits, these court rulings deprive copyright owners of an effective remedy in such situations.

The Copyright Remedy Clarification Act, S. 497, will correct this situation. It will reiterate Congress' intent to hold state governments to the requirements of the Copyright Act. It will ensure that unlawful, infringing activity by states is not beyond effective judicial relief.

BACKGROUND

The Copyright Act of 1976

After an extensive review process that stretched over 20 years, Congress in 1976 enacted a new copyright law, intending that its provisions would apply, where relevant, to states and their instrumentalities. It is clear that Congress intended that states be liable as copyright infringers, except in those situations where the states' conduct is expressly exempted from copyright liability. This intent is manifest in a number of provisions of the Copyright Act.

First, Section 501(a) broadly defines the copyright defendant class to encompass "[a]nyone who violates any of the exclusive rights of the copyright owner . . . ."1/

1/ 17 U.S.C.A. § 501(a) (1977) (emphasis added).

Second, other provisions of the Copyright Act, by either subjecting states to liability as infringers,[2] or exempting them from liability, confirm that the provisions of the Copyright Act, including Section 501(a), generally apply to states.[3] Taken as a whole, the Copyright Act evinces a clear intent to hold states liable in federal court for copyright infringement. The Register of Copyrights forcefully made this point last month in his testimony before the House Subcommittee on Courts, Intellectual Property, and the Administration of Justice when he stated:

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[2] See, e.g., Section 118(d)(3), which provides that governmental bodies that receive a reproduction of a transmission program and fail to destroy that reproduction "shall be deemed to have infringed." The phrase "governmental bodies" has been defined by Congress as including state entities. See House Comm. on the Judiciary, 87th Cong., 1st Sess. Copyright Law Revision, Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law 129 (Comm. Print 1961), cited in Motion For Leave to File and Brief Amici Curiae of the Association of American Publishers, Inc. and the Association of American University Presses, Inc. In Support of Petition for Certiorari at 11, BV Engineering v. UCLA, 858 F.2d 1394 (9th Cir. 1988), cert. denied, 57 U.S.L.W. 3614 (U.S. March 21, 1989) (No. 88-1099).

[3] For example, Section 110 of the Act provides that the following performances and displays are not infringements of copyright: the performance and display of a work by instructors or pupils in a nonprofit educational institution (Section 110(1)); the performance or display of certain works by a "governmental body" or nonprofit educational institution (Section 110(2)); the performance of certain works by a "governmental body" or a nonprofit agricultural or horticultural organization (Section 110(6)); and the performance of a nondramatic literary work specifically designed for blind, deaf, or other handicapped persons, if the performance is transmitted through the facilities of, e.g., "a governmental body" (Section 110(8)).

> The language and history of the Copyright Act of 1976 demonstrate that Congress intended to hold states, like other users, liable for copyright infringement. Section 110 exempts certain acts of governmental bodies. The former manufacturing clause (sections 601 and 602) exempted from copyright liability certain importations by states. If Congress had not intended states to be subject to damage suits in federal court, Congress need not necessarily have included express exemptions from copyright liability for certain state activity. The legislative history of the Copyright Act demonstrates that the debate focused on the extent to which Congress should exempt the states from full liability. No one suggested that the states were already immune from liability as to damages under the Eleventh Amendment. No state official requested total exemption from copyright liability.4/

Moreover, Mr. Chairman, it is instructive to note that in 1976 Congress was well aware that states and their instrumentalities routinely sought copyright protection for their own works and that their ability to do so would continue under the new Copyright Act.5/ There is simply no support in

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4/ The Copyright Remedy Clarification Act, 1989: Hearing on S. 497 Before the Subcomm. on Patents, Copyrights and Trademarks of the Senate Comm. on the Judiciary, 101st Cong., 1st Sess. 26-27 (1979) (statement of Ralph Oman, Register of Copyrights) (hereinafter "Oman Statement").

5/ *See* Senate Comm. on the Judiciary, 86th Cong., 2d Sess. *Copyright Law Revision Study No. 33*, "Copyright in Government Publications," 10 (Comm. Print 1961), *cited in* Brief Amici Curiae of the Association of American Publishers, Inc., the Association of American University Presses, Inc., the Information Industry Association, and the Computer Software and Services Industry Association (ADAPSO) at 18 n.12, *BV Engineering v. UCLA*, 858 F.2d 1394

(Footnote continued on next page)

the Act's text or lengthy legislative history for the proposition that Congress intended to allow states to claim the exclusive rights of copyright holders, but to permit them simultaneously to evade the strictures of the law when acting as users of copyrighted material.

Federal Court Case Law

Why, then, is there a need for S. 497 if Congress so clearly intended that the Copyright Act reach states and include them within the class of copyright defendants? The answer to this question is found in a 1985 Supreme Court case interpreting the reach of the Eleventh Amendment to the Constitution,[6] and in a series of lower court opinions applying this Supreme Court decision to the copyright field.

5/ (Footnote continued from previous page) (4th Cir. 1988). ("Most of the States have enacted statutes for the securing of copyright in certain of their publications or in their publications generally. And even in the absence of any statute, almost every State has claimed copyright in some of its publications. A survey by the Copyright Office shows that during the 5-year period 1950 through 1954 about 4,700 copyright claims were registered in the name of a State or a State agency or in the name of an official on behalf of a State.") See generally 1 M. Nimmer, Nimmer on Copyright § 5.06[A] n.1 (1988).

[6] The Eleventh Amendment provides that "[t]he Judicial power of the United States shall not be construed to extend to any suit in law or equity, commenced or prosecuted against one of the United States by Citizens of another State, or by Citizens or Subjects of any Foreign State." U.S. CONST. amend. XI.

In 1985, by a narrow 5-4 vote, the Supreme Court in a non-copyright case, Atascadero State Hospital v. Scanlon, increased the level of specificity that would be required of Congress to override the Eleventh Amendment.[7] The High Court ruled that the federal law must contain "unequivocal statutory language" evincing Congress' intent, and that the statute must specifically include states within the class of defendants subject to its reach.[8]

Atascadero had a direct and immediate impact on the Eleventh Amendment immunity of states under the 1976 Copyright Act.[9] This point is demonstrated by comparing two 1985 cases decided just six months apart, but with very different conclusions as to state liability under the Copyright Act.

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[7] 473 U.S. 234 (1985).

[8] 473 U.S. at 246.

[9] The question of whether Congress, acting pursuant to Article I of the Constitution, which contains the copyright clause, can override the Eleventh Amendment, is now before the Supreme Court. A number of lower federal courts have determined that Congress does have this power. See, e.g., Mills Music, Inc. v. Arizona, 591 F.2d 1278 (9th Cir. 1979); In re McVey Trucking, Inc., 812 F.2d 311 (7th Cir.), cert. denied sub nom. Edgar v. McVey Trucking Company, 108 S.Ct. 227 (1987); and United States v. Union Gas Company, 832 F.2d 1343 (3d Cir. 1987), cert. granted, 108 S.Ct. 1219 (1988). A decision in Union Gas is expected at any time.

The first, Johnson v. University of Virginia,[10] was decided only three months before Atascadero, whereas the second, Woelffer v. Happy States of America, Inc.,[11] was decided less than two months after Atascadero. In the former, a federal district court decided that Congress, in passing the Copyright Acts of 1909 and 1976, had intended to abrogate states' immunity, and thereby to hold them liable for damages for copyright infringements. The Johnson court concluded that the language of Section 501(a) of the Act sufficiently defined the defendant class so as to constitute a waiver of the states' Eleventh Amendment immunity.[12]

Just two months after Atascadero, and six months after Johnson, the district court in Woelffer determined that, under the Supreme Court's new standard, states are immune under the Eleventh Amendment from damage suits under the Copyright Act.[13] The Woelffer court concluded that the very language that in Johnson was sufficient to offset the Eleventh Amendment, was not sufficient to meet the new Atascadero standard: The Court stated that:

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[10] 606 F. Supp. 321 (W.D. Va. 1985).

[11] 626 F. Supp. 499 (N.D. Ill. 1985).

[12] The Court in Johnson specifically endorsed the decision in Mills Music that states are not immune from damage suits for copyright violations under the 1909 Copyright Act. The Court reasoned that the language in Section 501(a) of the 1976 Act was at least as sweeping, and probably more so, as that found in the 1909 Act.

[13] 626 F. Supp. at 505.

> The sweeping language employed by Congress arguably includes states within the class of copyright and trademark infringers. . . . Under Atascadero, however, this is not enough to abrogate sovereign immunity.[14]

Relying on Atascadero, every case since Woelffer likewise has been unable to hold states liable for damages for the states' infringing activity.[15]

To date, two of these cases, Richard Anderson Photography v. Brown and BV Engineering v. UCLA, have made their way to the Supreme Court, only to have the Court refuse to hear the appeals. Thus, Congress is the only viable avenue for copyright owners seeking prompt relief from the strict application of the Atascadero standard. The need for copyright owners to turn now to Congress for relief was not lost on the Ninth Circuit Court of Appeals in BV Engineering:

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[14] 626 F. Supp. at 504 (emphasis added).

[15] See Cardinal Industries, Inc. v. Anderson Parrish Assoc., Inc., No. 83-1038-Civ-T-13 (M.D. Fla. Sept. 6, 1985) (unpublished), aff'd without discussion, 811 F.2d 609 (11th Cir.), cert. denied, Cardinal Industries, Inc. v. King, 108 S.Ct. 88 (1987), discussed in "Copyright Liability of States and the Eleventh Amendment," A Report of the Register of Copyrights, June 1988, at 95 (hereinafter "Copyright Office Report"). Richard Anderson Photography v. Brown, 852 F.2d 114 (4th Cir. 1988), cert. denied sub nom. Richard Anderson Photography v. Radford University, 57 U.S.L.W. 3537 (U.S. Feb. 21, 1989)(No. 88-651); Lane v. First National Bank of Boston, 687 F. Supp. 11 (D. Mass. 1988), aff'd, ____ F.2d ____ (1st Cir. 1989), 10 U.S.P.Q.2d (BNA) 1268 (1989); and BV Engineering v. UCLA, 858 F.2d 1394 (9th Cir. 1988), cert. denied, 57 U.S.L.W. 3614 (U.S. March 21, 1989) (No. 88-1099).

> Although we find these arguments compelling, we are constrained by the Supreme Court's mandate that we find an abrogation of eleventh amendment immunity only when Congress has included in the statute unequivocal and specific language indicating an intent to subject states to suit in federal court. Such language is absent from the Copyright Act of 1976. We recognize that our holding will allow states to violate the federal copyright laws with virtual impunity. It is for Congress, however, to remedy this problem.[16]

THE COPYRIGHT OFFICE REPORT: COPYRIGHT LIABILITY OF STATES AND THE ELEVENTH AMENDMENT

While Richard Anderson and BV Engineering were making their way through the federal court system, the House Subcommittee on Courts, Civil Liberties and the Administration of Justice asked the Copyright Office to conduct a study on the interplay between copyright infringement and the Eleventh Amendment.

In response, the Copyright Office published a Request for Information in the Federal Register asking for comment on:

- any practical problems faced by copyright proprietors who attempt to enforce their claims of copyright infringement against states; and
- any problems that states are having with copyright proprietors who may engage in unfair copyright or business practices with respect to states' use of copyrighted material.[17]

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[16] 858 F.2d at 1400 (emphasis added).

[17] 52 Fed. Reg. 42045, 42046 (Nov. 2, 1987).

The Copyright Office received forty-four comments in response to its request. The overwhelming majority of those responding were copyright owners[18] chronicling "dire financial and other repercussions that would flow from Eleventh Amendment immunity for damages in copyright infringement suits."[19]

For example, the American Journal of Nursing Company (AJNC), which publishes a range of nursing and patient-related materials, learned that a state nursing home was operating an information center which was copying AJNC's materials and offering them for sale. When AJNC sought legal advice, it was informed that "the 'information center' was considered a state agency and was immune from suit under the Eleventh Amendment."[20]

In addition, copyright owners cautioned that if states were immunized from damage suits:

- o the prices charged non-state users will rise;
- o their economic incentive to create new works will diminish, and the quantity and quality of their efforts will decrease; and

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[18] The Copyright Office received comments from a wide array of copyright interests, including the copyright owners of computer software, data bases, books, information products, newsletters, educational testing material, music, and motion pictures.

[19] Copyright Office Report at iii.

[20] Copyright Office Report at 8.

- the marketing of copyrighted works to states will be limited or eliminated.

This latter point was aptly made by McGraw-Hill, a major supplier of materials to state educational institutions:

> [I]t is no exaggeration to assert that if state agencies are held to be immune from suit for money damages arising out of copyright infringement lawsuits, publishers such as McGraw-Hill will be forced to reevaluate their presence in the educational market on all levels. The most likely result of such a reevaluation will be sharply decreased competition and a reduction in the number of copyrighted products available to the state educational markets as publishers choose not to assume the unacceptable risks of developing and producing expensive educational materials only to have them infringed by state agencies. Ultimately, there exists the very real possibility that state immunity from liability for copyright infringement could end in an overall decline in the general quality and availability of educational materials.[21]

At the same time, the Copyright Office did not receive a single complaint regarding copyright proprietors engaging in unfair copyright or business practices vis-a-vis states. In fact, the Copyright Office was told that the real power in the educational textbook marketplace rests with the states, not with the publishers, and that states are often in a position to extract substantial concessions from the publishers.[22]

Based on this record, the Copyright Office concluded that "copyright owners have demonstrated that they will suffer immediate harm if they are unable to sue infringing states in federal court for money damages."[23]

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[21] Comments of McGraw-Hill at 3.

[22] Copyright Office Report at 9-11.

Equally important, the Copyright Office affirmed "that [the 94th] Congress intended to hold states responsible under the federal copyright law,"[24] and that Congress should pass remedial legislation to make clear that states are liable for damages in copyright infringement suits. Subsequently, last month, in testimony before the House Subcommittee on Courts, Intellectual Property and the Administration of Justice, the Register of Copyrights, Ralph Oman, endorsed the Copyright Remedy Clarification Act and "urge[d] Congress to pass . . . [H.R. 1131] expeditiously."[25]

THE PROPOSED LEGISLATION

What S. 497 Will Do

Passage of S. 497 will achieve important public policy objectives:

First, S. 497 will restore copyright owners' ability to turn to the judicial system to seek effective remedies when their valuable property rights are violated by states.

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[23] Copyright Office Report at vii (emphasis added).

[24] Copyright Office Report at vii.

[25] Oman Statement at 27.

Federal courts have exclusive jurisdiction over copyright infringement matters. Thus, if the Eleventh Amendment bars copyright owners from seeking a remedy in federal court, they have no place to turn for adequate relief. As the Court of Appeals for the Ninth Circuit recognized in BV Engineering, "the choice [in copyright cases] is not between the federal forum and the state forum -- it is between the federal forum and no forum."[26] Enactment of S. 497 will ensure that the federal courthouse door is not closed to copyright owners seeking effective relief. It will give them a meaningful day in court.[27]

In addition to protecting the only forum available, S. 497 will ensure that copyright owners have effective remedies when states violate the Copyright Act. Although state officials and state employees may be enjoined from future violations of the Copyright Act,[28] under recent court decisions interpreting Atascadero, the states for which they work cannot be sued for damages. As the comments received by the Copyright Office in its inquiry make clear, injunctions are a poor substitute for damage awards:

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[26] 858 F.2d at 1400.

[27] Because there is no state court jurisdiction in copyright infringement cases, the public policy question that normally arises in Eleventh Amendment matters -- whether congressional action will expand federal court jurisdiction at the expense of state tribunals -- is not involved here.

[28] Ex Parte Young, 209 U.S. 123 (1908).

> o injunctive actions are prohibitively expensive, especially for small companies, if there is no opportunity to collect damages;
>
> o injunctions do not compensate for infringements that have already occurred;
>
> o injunctive relief is bad business because sellers would lose customers if they brought a systematic series of lawsuits against them; and
>
> o although execution of damages is relatively simple, relief through an injunction requires a motion for contempt and the additional expense of proving performance after the injunction is granted.[29/]

S. 497 responds to these deficiencies. It permits aggrieved copyright owners to seek both an injunction and damages against unlawful conduct by state governments. It reaffirms the comprehensive scheme of copyright protection embedded in the 1976 Copyright Act which is applicable to anyone who violates it.

Second, S. 497 will ensure that the Copyright Act is a strong deterrent to copyright infringements by state governments. It will thereby prevent diminution in the continued availability of new, creative works for state markets.

States are now fully immune from damage suits under the recent cases applying Atascadero in the copyright context. This is true whether a state official unwittingly infringes the

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29/ Copyright Office Report at 13-15.

exclusive rights of the copyright owner or deliberately engages in systematic and unauthorized copying or public performances of protected works.

The knowledge that their actions are shielded from damages could well lead states to become lax in their adherence to the Copyright Act, and, in some instances, to intentionally disregard the law.

The lack of an effective deterrent places at risk all copyright proprietors who market to state agencies. Both the examples contained in the Copyright Office Report[30] and those chronicled in the court cases demonstrate the seriousness and variety of the risks that copyright owners face. These cases depict infringements involving the unauthorized state use of: (1) a musical composition for a state fair promotion;[31] (2) photographs;[32] (3) architectural plans for a student housing project;[33] (4) computer programs;[34] and financial data.[35]

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[30] Copyright Office Report at 7-9.

[31] Mills Music, Inc. v. Arizona, 591 F.2d at 1280.

[32] Johnson v. University of Virginia, 606 F. Supp. at 322; Richard Anderson Photography v. Brown, 852 F.2d at 115-116.

In addition, states may well confuse insulation from damages with full immunity from any copyright liability, causing them to believe that their activities are beyond the reach of the Copyright Act. A recent, telling example of this problem is illustrated by the experience of the Copyright Clearance Center, Inc. (CCC). For several years, CCC has been trying to develop a photocopy license for public and private universities to parallel its existing license program for corporations. Under this program, universities would obtain a blanket license for a pre-arranged fee that would allow them to make a certain number of copies of copyrighted materials. To that end, CCC held "substantive high-level discussions with representatives of public and private universities." However, these negotiations took a sudden, dramatic turn:

> Following the original decision in UCLA v. BV Engineering [sic], one public university withdrew from discussions, primarily because they were not persuaded that they had any obligation to comply with the copyright law. After the appellate decision upholding the original finding, a second public university terminated discussions of a possible photocopy license, citing the conviction of their legal staff that the

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[33] Cardinal Industries, Inc. v. Anderson Parrish Assoc., discussed in Copyright Office Report at 95.

[34] BV Engineering v. UCLA, 858 F.2d at 1395.

[35] Lane v. First National Bank of Boston, 687 F.Supp. at 13.

> copyright law did not apply to them. As a result, the pilot phase of this important program will include only private universities, which will significantly limit the scope and comprehensiveness of the data CCC will be collecting on photocopying practices.[36/]

This potential for unanswered violations of the copyright laws by state entities could have a substantial impact on publishers, software companies, and other copyright owners whose businesses rely, in whole or in part, on public universities or other state agencies. Small companies, in particular non-profit scholarly presses or other small university textbook publishers, could be put out of business if the states engage in wholesale copying of their property with impunity. Even if they survive, this loss of business would ultimately result in higher costs which would have to be passed on to consumers in the form of higher prices.

The absence of damage relief would also have a devastating impact on individual creators, such as textbook authors, poets, anthologists, essayists, and other writers and researchers whose markets center on college campuses and who rely heavily on income generated from their royalties. As the President of the Textbook Authors Association has written:

> Most textbook authors have regular teaching jobs. In fact, it is almost necessary that they do. If they

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[36/] Letter from Eamon T. Fennessy, President of the Copyright Clearance Center, Inc., January 3, 1989, to Ambassador Nicholas A. Veliotes, President, Association of American Publishers (see Attachment B).

> were to be deprived of their income from royalties, I can assure you that most of them would not expend the effort required to produce texts, because writing a text is a very laborious and time-consuming process. It is like having a second full-time job.[37]

Mr. Chairman, unless this situation is remedied, over time investors may become reluctant to invest in companies whose market includes, in some significant part, state universities or other state entities, because of the potential for harm to their markets. Authors and other creators of materials for the educational market could lose their incentive to pursue new projects. Publishers and others responsible for developing and distributing copyrighted materials will have less money to reinvest in new and innovative educational materials which are time-intensive and may have a low profit margin.

Ultimately, the public will be the big losers if measures are not taken to prevent the erosion of copyright-intensive industries. The quality and quantity of new works available, particularly to students and teachers at state-run institutions, will decrease. This, in turn, will impact the quality of education in our Nation's public universities. Any degradation in the quality of education in the United States cannot be allowed, particularly at a time when this Country's competitiveness in the global market is deteriorating.

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[37] Letter from M. L. Keedy, President and Executive Director, Textbook Authors Association, January 16, 1989, to The Honorable Dennis DeConcini (see Attachment C).

S. 497 will help prevent such an erosion of state markets for copyrighted works. It will help make sure that state entities have no incentive to ignore the requirements of the copyright law *and* that copyright owners have the incentive to keep producing the cornucopia of creative works now available to state entities.

The enactment of S. 497 will also serve as an incentive for states to give due respect to the copyright laws. The current legal situation acts as a *disincentive* for states to respect the valuable property rights of copyright owners and also sends the wrong signal to the public -- a public that in the past has shown a troubling insensitivity to the property rights of copyright owners. Especially discomforting is the fact that state universities and colleges are populated by young adults who will be given the clear impression by state officials and their instructors that it is perfectly acceptable to either copy or publicly perform copyrighted works without permission and with impunity.

Third, enactment of S. 497 will eliminate a fundamental unfairness that exists under current interpretations of the Copyright Act. State entities, who make use of copyrighted materials in a manner much like other copyright users, currently enjoy an unfair advantage vis-a-vis their competitors. For example, whereas a state university can obtain copyright protection for its works and protect these copyrights from infringements by others, private universities cannot protect their copyrights against infringements to the same extent because of the Eleventh Amendment immunity afforded states.

Indeed, Mr. Chairman, you recognized this fundamental unfairness when you introduced S. 497:

> The anomalous result of these decisions is that public universities can infringe without liability upon copyrighted material and essentially steal information from private universities, but private universities cannot similarly infringe with immunity on public institutions. In other words, UCLA can sue USC for copyright infringment, but USC cannot sue UCLA.[38/]

What S. 497 Will Not Do

These are the basic goals that enactment of S. 497 will accomplish. Also important is what adoption of this legislation will not do.

First, S. 497 is a narrowly crafted response to a technical issue. It does not expand the scope of unlawful conduct under the Copyright Act. As you stated at the time you introduced the Copyright Remedy Clarification Act:

> The simple fact is that protecting copyright from this particular form of infringement [state violations] does

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38/ 135 Cong. Rec. S2012 (daily ed. March 2, 1989) (statement of Sen. DeConcini).

> not render any conduct unlawful that is not already unlawful.[39]

The 1976 Copyright Act applies to states. The circumstances under which a state will and will not be an infringer is not altered by this legislation. The issue of damages arises only after there has been an infringement of a copyright by a state entity -- only after there has been a violation of the Copyright Act.

Second, S. 497 *does not* expand the substantive rights of copyright owners. Representative Kastenmeier made this point earlier this year when he declared:

> This amendment does not in *any way* change the substantive rights of copyright owners.[40]

In sum, S. 497 is a narrowly-tailored proposal designed to further important public policy goals. It will do so without upsetting the delicate balance of rights and exemptions embodied in the Copyright Act. It will reiterate the intent of the 94th Congress that copyright owners have a meaningful opportunity to go to court if their rights are infringed by states.

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[39] *Id*.

[40] 135 Cong. Rec. E525 (daily ed. Feb. 27, 1989) (statement of Rep. Kastenmeier) (emphasis added).

Conclusion

Mr. Chairman, the Copyright Remedies Coalition urges the prompt enactment of S. 497. By quickly responding to these court decisions, Congress can nip this problem in the bud. Prompt action will prevent the erosion of currently vulnerable markets. Individual creators will not lose their incentive to produce new and innovative educational materials. The public will not be deprived of the invaluable copyrighted materials now available. Finally, prompt action will help ensure that the quality of education in our country is not diminished.

Thank you.

ATTACHMENT A

COPYRIGHT REMEDIES COALITION
SUITE 600
2000 K STREET, N.W.
WASHINGTON, D.C. 20006-1809

MICHAEL R. KLIPPER
COUNSEL

TELEPHONE
(202) 429-8970

The members of the Copyright Remedies Coalition include:

ASCAP
Association of American Publishers
Association for Information Media and Equipment
BMI
Dun & Bradstreet Corporation
Encyclopaedia Britannica Educational Corporation
Films, Inc.
Harcourt Brace Jovanovich, Inc.
International Communications Industries Association
Information Industries Association
McGraw-Hill, Inc.
Motion Picture Association of America, Inc.
National Music Publishers' Association
Recording Industry Association of America
Time Inc.
Training Media Association
Warner Communications Inc.
West Publishing Company

ATTACHMENT B

COPYRIGHT CLEARANCE CENTER, INC.
27 Congress Street, Salem, Massachusetts 01970
Telephone: (508) 744-3350 FAX: (508) 741-2318

January 3, 1989

VIA FAX MACHINE

Ambassador Nicholas A. Veliotes
President
Association of American Publishers
2005 Massachusetts Ave., NW
Washington, DC 20036

Dear Nick:

I understand that the Association of American Publishers has joined other organizations in supporting congressional efforts to remove any appearance of an exclusion of state entities from the copyright law. CCC supports these efforts; our recent experience suggests that confusion over the scope of the law has already resulted in violations of the intent and spirit of existing legislation.

Over the last several years, CCC has focused substantial resources on developing a photocopy license for universities, which would parallel our existing successful licensing program for corporations. Substantive, high-level discussions of the program have been conducted with major private and public universities. Following the original decision in UCLA v. BV Engineering, one public university withdrew from discussions, primarily because they were not persuaded that they had any obligation to comply with the copyright law. After the appellate decision upholding the original finding, a second public university terminated discussions of a possible photocopy license, citing the conviction of their legal staff that the copyright law did not apply to them. As a result, the pilot phase of this important program will include only private universities, which will significantly limit the scope and comprehensiveness of the data CCC will be collecting on photocopying practices.

I trust that this information will be of value to the AAP and others who endorse immediate clarifying action in this important domain. Please feel free to share it whenever and wherever it will serve our common goals. CCC stands ready to provide any additional support or information which may be necessary.

Very truly yours,

Eamon

Eamon T. Fennessy
President

ETF/js

DIRECTORS W. Bradford Wiley Chairman John Wiley & Sons, Inc. Peter F. Urbach Vice Chairman Reed Publishing U.S.A. Eamon T. Fennessy President
Michael S. Boswood Secretary Elsevier Science Publishing Co., Inc. Charles A. Bellis Treasurer Houghton Mifflin Co. Vincent P. Biss, Jr. Exxon Corp. Georgia L. Finnigan The Information Store, Inc.
Gerald Fronc The Authors League of America, Inc. Alexander C. Hoffman Publishing Consultant Donald W. King King Research, Inc. Michael D. Maychar Xerox Corp. Robert H. Marks American Chemical Society
Robert N. Miranda Pergamon Group Richard S. Rudick John Wiley & Sons, Inc. Ralph R. Schulz McGraw-Hill, Inc. Louis L. Snyder City University of New York and The Authors Guild, Inc.
David L. Staiger Institute of Electrical and Electronics Engineers, Inc. Richard Udell Harcourt Brace Jovanovich, Inc. Jolanda von Hagen Springer-Verlag New York, Inc.

ATTACHMENT C

TAA
TEXTBOOK
AUTHORS
ASSOCIATION
For Creators of Academic Intellectual Property at All Levels

**President and
Executive Director
M.L. (Mike) Keedy**
Professor Emeritus
of Mathematics
Purdue University

January 16, 1989

The Honorable Dennis DeConcini
Chairman
Subcommittee on Patents, Copyrights and
Trademarks
United State Senate
Washington, DC 20510

Dear Senator DeConcini:

This is to express our grave concern about the recent court decisions holding that state institutions are immune from prosecution for infringement of copyrights.

As you probably know, the Register of Copyrights has concluded that copyright owners will suffer "immediate harm" if they cannot sue state institutions for infringement. Also, the Copyright Clearance Center, which is trying to negotiate licensing agreements for photocopying by universities, reports that two universities have withdrawn from the discussions as a result of the court decisions re UCLA vs. BV Engineering.

As textbook authors, we comprise the wellspring of the textbook industry, an industry which is vital to the welfare of education at all levels and in turn to the fundamental welfare of education at all levels and in turn to the fundamental welfare of our nation. Most text authors have regular teaching jobs. In fact, it is almost necessary that they do. If they were to be deprived of their income from royalties, I can assure you that most of them would not expend the effort required to produce texts, because writing a text is a very laborious and time-consuming process. It is like having a second full-time job.

It is essential that your committee and congress at once reaffirm congress' original intent that redress against states for copyright infringement exists. We know that you are aware of this need from your comments in the Congressional Record of October 20. We support your position and applaud your efforts. Correcting the present condition is vital, not only to textbook authors and publishers, but to the welfare of American education.

Sincerely,

Mike Keedy

M. L. Keedy

MLK:nh

P.O. BOX 535 • ORANGE SPRINGS, FL 32682 • (904) 546-1000

MR. JAMES LAWRENCE HEALY, JR.

VICE PRESIDENT OF SALES ENTERPRISE MEDIA, INC.

1. Mr. Healy, in your statement you mention a video you market titled The Modern Presidency with David Frost. What does that video retail for? What is your profit on each one? So a loss in sales of 10% would result in what kind of loss to you?

We have not yet made a profit on our educational series The Modern Presidency with David Frost. Bringing this material to the educational market was extremely costly. To produce a high quality educational video series using material such as interviews with the Presidents is costly. It's a fact. Our longer range expectation, however, is for an overall profit margin of 14-17% on the program. A loss of 10% of sales would seriously jeopardize our overall profitability on this production -- perhaps even putting this venture into a loss position. If this were the case, we would have to re-evaluate the overall viability of this kind of programming in the market.

As I mentioned in my testimony, the profit margin is not tremendous in the educational market. A loss of 10% of sales would put us in a position where we would have to evaluate the ongoing viability of marketing to this important arena.

James L. Healy, Jr.

[illegible]
Congress Street
Suite [illegible]
Boston, Massachusetts
02210
617·482·3001

Enterprise Media Inc.

RESPONSES OF COPYRIGHT REMEDIES COALITION
ADDITIONAL QUESTIONS FOR PANEL II

1. **In your opinion, why are statutory damages a necessary element of infringement suits against states?**

Answer:

As it discussed in the written testimony of the Copyright Remedies Coalition (CRC) (p. 15), damages for copyright infringement must be available because injunctive relief is simply not sufficient to protect the interests of the copyright owners and ultimately the public.

Two additional points bear special mention with regard to statutory damages.

First, when Congress enacted the 1976 Copyright Act, it made statutory damages an integral part of the new law's remedy provisions. Congress recognized the difficulties inherent in proving damages in copyright infringement cases and it did not want plaintiffs who have proven copyright infringements to be left with no adequate remedy under the Copyright Act. These difficulties exist independently of the nature of any particular defendant. Actual damages are hard to prove with precision against an individual, corporation or state. In the absence of statutory damages, these difficulties will make copyright owners reluctant to bring lawsuits to protect their property. Moreover, the harm to copyright owners is no less because the violation was caused by a state, as opposed to a non-state employee.

Second, it is imperative to note that the scope and availability of statutory damages is limited by two key provisions in the law. The first is the so-called "innocent infringer" provision which provides:

> In a case where the infringer sustains the burden of proving, and the court finds, that such infringer was not aware and had no reason to believe his or her acts constituted an infringement of copyright, the court in its discretion may reduce the award of statutory damages to a sum of less than $200.

Thus, in those instances where a infringer, including a state employee, unwittingly violates the Act, the extent of monetary liability is already limited.

In addition, statutory damages are simply not available in certain situations that are extremely relevant here. Basically, under the law a court is precluded from awarding statutory damages, for example, where an employee or agent of certain non-profit institutions, including educational institutions (whether or not they are state-run), acting within the scope of his or her employment, reasonably believed that infringing use of a copyrighted work was a fair use.

2. Do you see any difference between suing private companies and public institutions for damages? Doesn't it make some sense to you that taxpayers and state treasuries shouldn't be liable for damages resulting from actions of state employees? Weren't many of the infringement cases that have been brought the result of infringements by non-elected, non-policy making state employees, just trying to do their best to serve the people of the state? Why should taxpayers be liable for their mistakes?

Much of the answer to the previous question is relevant here.

First, the adverse impact on copyright owners is no less when infringements are caused by state employees. This is a _crucial_ point because state entities are _important_ users of copyrighted works. If copyright owners, particularly college textbook publishers and others who market extensively to state institutions cannot rely on the deterrent provided by the Act's damage provisions, the adverse economic impact on the copyright owner will be devastating.

Second, the existing provisions of law limit the exposure of states (as well as non-state defendants) for statutory damages. As noted above, to the extent that the actions of state employees fall within the "innocent infringer" language of the Act, the extent of state liability for statutory damages is mitigated. Moreover, in certain fair use contexts involving states, statutory damages are not available at all. Thus, states observing and enforcing reasonable standards of copyright behavior with respect to their employees should impose little burden on their taxpayers.

Third, if states were not liable for damages, they might well become lax in their adherence to the Copyright Act, and in some cases could intentionally disregard the law. If states are subject to standard damage liability, they will be more careful _not_ to infringe copyrights and taxpayers will not have to pay for state-caused infringements. We look to the damage provisions as a means of deterring copyright infringements.

Senator DeConcini. Thank you very much, Mr. Healy.
Mr. Schmitz.

STATEMENT OF ROBERT A. SCHMITZ, CHAIRMAN, PRESIDENT AND CHIEF EXECUTIVE OFFICER, RICHARD D. IRWIN, INC., HOMEWOOD, IL

Mr. Schmitz. Good morning, Mr. Chairman. Thank you for the opportunity to share my views on this important bill.

I am here on behalf of my company, Richard D. Irwin, which is a publisher of college textbooks and general business books, and also on behalf of its authors, the Association of American Publishers, which is an organization which represents most of the publishers in the United States, including large and small publishers, for profit, not for profit, university presses, and the Copyright Remedies Coalition, which is a group of parties interested in protecting their copyrights.

Richard D. Irwin devotes most of its attention to college publishing. It is 85 percent of our business, of which 80 percent goes to State institutions. Therefore, I have a keen interest in the passage of S. 497.

We are concerned about the impact of recent court decisions which allow the State institutions to copy textbooks and reference materials without sanction. We need meaningful sanctions to deter the inappropriate use of our books and materials.

As it is, we have enough trouble policing and protecting our copyrights. Faculty are often unaware of their responsibilities under the act. We have had several requests in the past few years from professors wishing to take part of two or more books. When we deny the approval, they tell our sales representatives that they are going to go off and do it anyway, if we will not, and they will go into competition with us. They do not recognize that in that process, they are saying that they have an intent to violate the Copyright Act.

With great frequency, we see what we call anthologies appearing on college campuses, which again are put together without our permission. Without this act, therefore, we are concerned that the State institutions may become far too casual and relaxed about our property rights, and that this will foster an attitude among faculty and students to go even beyond where they have gone in the past, so that they will reach a point where their attitude is that they can use our materials without permission for whatever they want to use it for.

In recent efforts in our industry through an organization called the Copyright Clearance Center, we have approached a number of State and private institutions to sell licenses for all of our material so that they could have ready access to that material. During those negotiations, two State institutions said, "We don't understand why we should pay a license for this, because as we now understand the impact of the precedents in some recent court cases, we really are not obligated to comply with the Copyright Act."

That attitude is one that causes us great concern. It is not highly prevalent, but its mere existence is one that leads us to be concerned about what might happen in the future.

Therefore, we would like to see this nipped in the bud. Further study, as far as I am concerned, will simply allow the practice to flourish. Authors will lose royalties and be discouraged from writing quality textbooks.

In fact, we recently received a letter from Michael Keedy, the president of the Textbook Authors Association, that I would like to submit for the record. It is a letter on behalf of his organization that indicates that textbook authors would certainly be hurt if universities were allowed to copy their books without paying for them.

Let me also point out that your bill eliminates unfairness in the current situation. We have no remedy against the State institutions if they violate our copyrights. On the other hand, they publish materials, software, and even in some cases books, and they are fully protected. This strikes us as unfair.

In conclusion, Mr. Chairman, S. 497 is a fair bill. It is narrow in focus; it restores Congress' original intent; it also provides help to our members in the AAP to ensure that their materials are not taken, causing them to suffer financial harm; and finally, it also provides fair compensation to the authors who play an important role in providing textbook materials. Therefore, I urge the subcommittee to pass S. 497 and to do so promptly.

Thank you.

[The prepared statement of Mr. Schmitz and answers to supplemental questions follow:]

Summary of Statement of Robert A. Schmitz
On S. 497
The Copyright Remedy Clarification Act

Mr. Robert A. Schmitz submits this statement in support of the Copyright Remedy Clarification Act on behalf of his company, Richard D. Irwin, Inc., based in Homewood, Illinois, the Association of American Publishers and the Copyright Remedies Coalition.

The interests represented by Mr. Schmitz are drawn together by their support for S. 497. These groups market their copyrighted works to states which are, under recent federal court decisions, immune under the Eleventh Amendment from damage lawsuits for violations of the Copyright Act. These court cases are of great concern to companies like Richard D. Irwin, Inc. that focus a great deal of their business activities at state institutions.

S. 497 would clarify that Congress intended, when it adopted the Copyright Act of 1976, to hold states liable for damages in the event they unlawfully use the valuable property of copyright owners. If S. 497 is not adopted, there will be no effective deterrent to this type of activity by states.

Without the threat of damage lawsuits, states will have little incentive to pay careful attention to the requirements of the Copyright Act. An example of the type of behavior that could multiply should states remain immune from copyright damage actions involved the Copyright Clearance Center and public and private universities. During discussions among these groups regarding a photocopy license, two public universities withdrew from participation, apparently based on their mistaken belief that, as a result of these recent court decisions, they were not obligated to comply with the copyright law.

In addition to preventing further problems like this, enactment of S. 497 will eliminate a basic unfairness under the current law. It will ensure that states, which increasingly own copyrights and which enjoy the full benefits of the Copyright Act, are not insulated from damage lawsuits when they infringe the copyrights of others.

In conclusion, Mr. Schmitz urges prompt passage of the Copyright Remedy Clarification Act.

STATEMENT OF ROBERT A. SCHMITZ

ON S. 497
THE COPYRIGHT REMEDY CLARIFICATION ACT

BEFORE THE SUBCOMMITTEE ON PATENTS,
COPYRIGHTS AND TRADEMARKS

SENATE JUDICIARY COMMITTEE

101st CONGRESS, FIRST SESSION

MAY 17, 1989

Mr. Chairman, my name is Robert A. Schmitz. I am the Chairman, Vice President and Chief Executive Officer of Richard D. Irwin, Inc., based in Homewood, Illinois, a subsidiary of the Times Mirror Company. Richard D. Irwin, Inc. publishes college business and economics textbooks and general business and financial trade books.

At the outset, I would like to thank you for the opportunity to testify today on the need for enactment of the Copyright Remedy Clarification Act. And thank you, Mr. Chairman and Senators Simon and Hatch, for your sponsorship of this much-needed legislation.

I appear today on behalf of three organizations: my own publishing company, the Association of American Publishers (AAP), and the Copyright Remedies Coalition (CRC).

The Association of American Publishers, of which Richard D. Irwin, Inc. is a member, consists of approximately 250 publishing houses who publish 75% of the books published in this country. AAP's members include large and small companies, profit and not-for-profit publishers, and state university as well as private university presses. AAP, in turn, is a member of the Copyright Remedies Coalition. In addition to book publishers, CRC is made up of a diverse group of copyright owners, including representatives of computer software, music, educational testing, motion picture and educational video industries.

All of the groups on whose behalf I am speaking today are drawn together by their support for your bill, S. 497. All of us market our copyrighted works to states. All of us are deeply concerned about a series of recent federal court decisions that prevent us from having an effective deterrent, meaningful access to courts if necessary, and adequate opportunity for compensation in the event of state infringement.

I am not an attorney. I am not here to talk about the specifics of these troubling court decisions. I am quite concerned about the practical implications of these decisions on those of us who create materials for and deal with the college textbook market on a daily basis, a market which represents such an important part of our businesses. Let me explain.

State colleges and universities represent the greatest share of the college textbook market. Seventy-nine percent of the students at institutions of higher learning in this country attend state institutions. Companies like Richard D. Irwin, Inc. that focus so much of their business activities at these institutions, are threatened by the current legal situation, which allows state universities and colleges to copy textbooks and other reference materials without facing meaningful sanctions.

A business environment in which our customers have little or no incentive to pay careful attention to the requirements of the Copyright Act poses a serious problem for us. In the event of infringement, we need to be able to take meaningful steps knowing that they will have a real impact on state colleges and universities. If we must go to court to protect our property, we need to know that, at the very least, we will have the opportunity to recover damages for the harm that has been caused to our markets, and won't be limited to an injunction against future unauthorized copying.

Mr. Chairman, your bill is vitally important to those of us who serve state markets. It will clarify that states are subject to the provisions of the Copyright Act, in particular the damage provisions. It will act as a disincentive to those who might become too casual about the property rights of copyright owners. It will be a real deterrent to those who might otherwise intentionally disregard the Copyright Act and copy our materials.

At this time, I would like to submit for the record a letter that provides a current example of the type of behavior that we fear will multiply should states remain immune from copyright damage actions. This letter describes an effort by the Copyright Clearance Center (CCC) to set up a photocopy license for public and private universities and colleges. Under these licenses, the institutions would receive the right to make a certain number of copies of copyrighted works in exchange for a prescribed fee. Well after substantive negotiations had begun, two public universities withdrew from discussions. They did so apparently on the mistaken belief that, as a result of the recent court decisions, they were not obliged to comply with the copyright law.

In addition to putting the necessary teeth back into the remedy provisions of the Copyright Act, Mr. Chairman, your bill will also eliminate a basic unfairness under the current law. State colleges and universities are copyright owners. For example, they own copyrights in books and journals published by their university presses and in computer software produced in the course of research and administrative programs. States and other state entities also own copyrights in various materials produced in the course of their activities. If these valuable copyrights are violated, the states have available to them the full range of remedies for pursuing violators. Yet, these very institutions that enjoy the full benefits of the Copyright Act are insulated from damage awards should they infringe the copyrights of others. It is not fair that states receive this type of special treatment. This unfairness should be eliminated. Your bill will do just that.

Mr. Chairman, S. 497 is a fair piece of legislation. It is narrow in focus. It restores Congress' original intention that the copyright law applies to all entities, and that states are liable and subject to the full range of remedies for violations of the copyright law.

S. 497 achieves this purpose without either expanding the substantive rights of copyright owners or changing the rules governing when states are either liable for or immune from copyright violations. I urge this Subcommittee to act promptly to pass the Copyright Remedy Clarification Act.

Thank you.

IRWIN

Richard D. Irwin, Inc.
1818 Ridge Road
Homewood, IL 60430
317 206 2254

Robert A. Schmitz
Chairman, President and
Chief Executive Officer

June 5, 1989

The Honorable Dennis DeConcini
Chairman
Subcommittee on Patents, Copyrights
and Trademarks
United States Senate
Washington, D.C. 20510

Dear Senator DeConcini:

Thank you for your letter of May 19, 1989. I appreciate the interest which you have shown regarding the Copyright Remedy Clarification Act (S. 497). As you requested, following are my answers to your supplemental questions:

1. If the Congress fails to enact Senate Bill S. 497, I believe that we will see a rapid erosion in the respect for copyrights at major state institutions. As I mentioned in my testimony, there is already evidence that copying of materials to avoid the purchase of textbooks is widespread at major state and private institutions in the United States. In addition, at many of the state institutions the university copy centers and university owned bookstores are preparing to improve their copying services to faculty and students. In particular, I am concerned about the establishment of copy centers at major university owned bookstores. If these bookstore copy centers believe that they have no responsibility nor liability for copying material from our textbooks, they will increase their copying of our materials to avoid the purchase of textbooks. They are able to produce these custom books at a cost to students that is below the retail price of our textbooks. They can do so because they are not obligated to pay royalties, do not incur any of the expensive development costs associated with preparing a book, and do not incur any of the marketing/selling expenses that we, as publishers, incur to make faculty aware of our textbooks. In addition, they do not bear any of the costs for the support packages that we liberally provide to faculty members who adopt our textbooks. In other words, if S. 497 is not passed, they will provide copies of our books on an incremental cost basis while we incur the full costs of developing textbooks and providing

Times Mirror
Books

service supports to faculty. I believe that within a year there will be a serious erosion in the sale of textbooks. Since current illegal copyright copying activities are done in an underground way, we have no hard evidence of the scope of such activities; but, we believe, based on our declining sales and reports from bookstore managers, that we lost anywhere from 5 to 10 percent of our sales in 1988 and early 1989 due to illegal copying activities.

Although I believe that the deterioration will be rapid, I am not aware of any discussions among my colleagues of plans to cease publication of textbooks. Don't rule that out, however. If Richard D. Irwin, Inc. found that they were selling no copies of a textbook, but continued to provide teaching packages to adopters, we would certainly not have an economic incentive to keep that book in print. I believe what will happen. Even before publishers decide to cease publication of textbooks, they will decide to stop providing the ancillary support packages to teachers. I think this would put the faculty in the awkward position of trying to conduct a course with poorly organized materials, and without the benefit of the teaching support packages that publishers regularly supply for most of the major introductory and intermediate level college courses; i.e., freshman and sophomore level courses.

2. The current situation where a state school can sue a private school for copyright infringement seems absolutely ludicrous. Although I am not a lawyer, I can hardly believe that Congress intended to create such a patently inequitable situation.

3. Injunctive relief is hardly a reassuring remedy for infringement of our copyright material. This places an incredible burden on us as publishers to know about the incidence of infringement. Frequently, copies are made without our knowledge and, if we find out about it at all, it may be weeks or months later - after the course has been completed and the negative impact on our sales has materialized. To provide the policing action implicit with injunctive relief is a remedy that would create an economic cost almost as onerous as the loss of sales from illegal infringement. We need a clear set of rules that

discourage the inappropriate use of copyrighted material and statutory penalties to discourage the "would be" infractor. I believe this is what was intended by the copyright act, and has served as a meaningful approach to discourage inappropriate use of our material in the first place.

At this time, let me also enter into the record the letter that I mentioned during my testimony in Washington. It is the letter from Michael Keedy, the president of the Textbook Authors Association. Mr. Keedy accurately expresses the interest in his membership in seeing the passage of the Copyright Remedy Clarification Act (S. 497). I believe it provides additional support for our position.

If there is anything else I can do to help you in preparing for passage of this legislation, please let me know.

Sincerely,

Robert A. Schmitz

Robert A. Schmitz

RAS:ac

Enclosure

TEXTBOOK
AUTHORS
ASSOCIATION
For Creators of Academic Intellectual Property at All Levels

President and
Executive Director
M.L. (Mike) Keedy
Professor Emeritus
of Mathematics
Purdue University

January 16, 1989

The Honorable Dennis DeConcini
Chairman
Subcommittee on Patents, Copyrights and
Trademarks
United State Senate
Washington, DC 20510

Dear Senator DeConcini:

This is to express our grave concern about the recent court decisions holding that state institutions are immune from prosecution for infringement of copyrights.

As you probably know, the Register of Copyrights has concluded that copyright owners will suffer "immediate harm" if they cannot sue state institutions for infringement. Also, the Copyright Clearance Center, which is trying to negotiate licensing agreements for photocopying by universities, reports that two universities have withdrawn from the discussions as a result of the court decisions re UCLA vs. BV Engineering.

As textbook authors, we comprise the wellspring of the textbook industry, an industry which is vital to the welfare of education at all levels and in turn to the fundamental welfare of education at all levels and in turn to the fundamental welfare of our nation. Most text authors have regular teaching jobs. In fact, it is almost necessary that they do. If they were to be deprived of their income from royalties, I can assure you that most of them would not expend the effort required to produce texts, because writing a text is a very laborious and time-consuming process. It is like having a second full-time job.

It is essential that your committee and congress at once reaffirm congress' original intent that redress against states for copyright infringement exists. We know that you are aware of this need from your comments in the Congressional Record of October 20. We support your position and applaud your efforts. Correcting the present condition is vital, not only to textbook authors and publishers, but to the welfare of American education.

Sincerely,

Mike Keedy

M. L. Keedy

MLK:nh

P.O. BOX 535 • ORANGE SPRINGS, FL 32682 • (904) 546-1000

Senator DECONCINI. Thank you, Mr. Schmitz.
Mr. Eskra.

STATEMENT OF DAVID ESKRA, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, PANSOPHIC SYSTEMS, INC., REPRESENTING THE SOFTWARE PUBLISHERS ASSOCIATION AND ADAPSO, WASHINGTON, DC

Mr. ESKRA. Good morning, Mr. Chairman. I am David Eskra, chairman of Pansophic Systems of Lisle, IL.

Pansophic is a worldwide leader in the software industry. We have about 50,000 installations of our product, including mainframe, midframe, and also in the PC arena.

Our portfolio of products exists to serve both the sophisticated manufacturing user as well as the comparatively simple turnkey graphic work stations. We were founded in 1969 and have grown to employ about 1,500 people, with revenues close to $200 million. About 47 percent of our revenue comes from outside of the United States.

I am here today on behalf of Pansophic, ADAPSO, the Computer Software and Services Trade Association, for which I serve as vice chairman, and SPA, the Software Publishers Association. With more than 1,200 corporate members between the associations, ADAPSO and SPA represent the entire spectrum of computer software companies, providing systems that application programmers use for home, business, and government.

All of us vigorously support S. 497, the Copyright Remedies Clarification Act. This bill would explicitly empower software copyright holders to sue infringing State governments for damages in Federal courts. We believe that this bill would overrule recent appeals court decisions holding that Congress did not make such an intention clear in the Copyright Act of 1976.

We all believe that prompt passage of this bill is in order for several reasons. First of all, we believe that the courts have not given copyright owners the deserving protection that Congress intended. The matter before us is the availability of meaningful remedies for copyright holders against State governments and the intent of Congress for such remedies to be available.

We also believe that it is up to Congress to declare that States are not above the law; that they are consumers of works of authorship like others, and must be expected to compensate the creators just like everyone else. In short, Congress must make it clear that the States are to be responsible economic actors in society and not abuse their position.

Second is the meaningful remedies issue. We talked earlier about the *BV Engineering* v. *UCLA* case, with the conclusion of this case and the issue being the university hiding behind the 11th amendment at the expense of a small business.

There are big disparities in this case. BV has revenues of less than $250,000 and 8 employees, and UCLA has 30,000 students. More to the point, it is part of a university system with nine campuses of over 100,000 students. The whole State has over 300,000 employees and a budget of $40 billion.

How can a small company like BV possibly defend itself against blatant infringement by such an economic actor? It cannot.

My own company, Pansophic, has faced a similar situation in New Jersey. Again, we must look at the odds. Although we are a $200 million company with 1,500 employees, we face an entity of 100,000 employees with a budget of around $12 billion. We are one of the larger computer software companies, but the State still dwarfs us.

Computerworld, which is an industry periodical, ran a front page story dealing with BV Engineering. We were affected immediately.

We talked earlier about issues that were affecting copyright holders. The State of New Jersey was using one of our products on a trial basis, meaning the they were attempting to decide whether or not they would install the product.

If we succeeded, the State intended to license three copies from Pansophic. After publication of this article, a senior State employee referenced the *BV* case specifically and said that the State no longer intended to license three copies, but only one. Over a month has now passed and the State has yet to purchase any Pansophic products.

We attempted to mitigate this exposure by requiring the State agencies and universities to waive immunity under contractual rights. Without exception, this slows the process significantly. Another example is that since late March we have been negotiating with the University of Oklahoma and there is no resolution in sight.

In our opinion, the State officials are clearly not grasping the fact the software is a very strategic resource of this country. To the extent that we are not fully compensated for our intellectual property, our research and development gets hurt.

We are an unusual industry, in that 15 percent of our sales dollars go back into research and development. We are far above the average of U.S. industry in general.

Third is in regard to the incentive to market. We believe that the lack of passage of S. 497 destroys the incentive of companies to market.

We can raise prices, which is clearly not in the States' best interest. We can simply withdraw and refuse to deal with the States under the current situation, but I think that really damages what the whole Copyright Act was intended to foster, which is dissemination of authorship in an orderly way.

Ultimately, the States will be deprived of use. Surely, nobody wants that.

For some types of software there is no effective defense. Most popular software for personal computers is marketed through chain stores and retail outlets such as Radio Shack, Computerland, Egghead Software, et cetera. Any State employee can simply walk into one of these stores, acquire a copy, go back to the office and simply make as many copies as he so chooses. The self-defenses in this case are useless against this sort of conduct.

Last but not least, the 11th amendment applies equally to U.S. citizens and to citizens of foreign countries who are plaintiffs against us. As I mentioned earlier, 47 percent of our revenue comes from outside the United States. We are fighting for our copyright protection outside the United States, and clearly not setting a good example by not giving ourselves and other foreign competitors in the United States copyright protection here within the United States.

I appreciate the opportunity to speak here today. Thank you very much.

[The prepared statement of Mr. Eskra and questions and answers follow:]

ADAPSO
the computer software and services industry association

June 1, 1989

Honorable Dennis DeConcini
United States Senate
328 Hart Senate Office Building
Washington, DC 20510

Dear Senator DeConcini:

ADAPSO, The Computer Software and Services Industry Association, seeks your support for S. 497, The Copyright Remedies Clarification Act of 1989. ADAPSO is concerned that copyrighted works are increasingly being infringed by state governments and their agencies such as schools, universities, and libraries.

S. 497 has become unavoidably necessary in light of recent litigation about the scope of the Eleventh Amendment to the Constitution, under which several states have successfully claimed immunity from damages for copyright infringement in federal court. The Supreme Court has declined to hear either of the two cases presented to it for review.

The litigation has been highly technical, but the business implications are profound. States, which cannot avoid paying fair market prices for labor and materials, now are claiming that they ought to be able to get intellectual property essentially for free. On May 17, the Judiciary Subcommittee on Patents, Copyrights, and Trademarks held a hearing on S. 497. ADAPSO, in a statement with the Software Publishers Association detailed how the recent litigation has emboldened states acquiring or thinking of acquiring software.

I have enclosed the full statement for your information. This bill -- also endorsed by the U.S. Copyright Office -- will need your full support to move through the Committee and the Senate.

Sincerely,

Luanne James

Luanne James
Executive Director

Enclosure

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STATEMENT OF DAVID ESKRA
CHAIRMAN, PANSOPHIC SYSTEMS, INC.
FOR ADAPSO
THE COMPUTER SOFTWARE AND SERVICES INDUSTRY ASSOCIATION, INC.
AND THE SOFTWARE PUBLISHERS ASSOCIATION
ON S.497
THE COPYRIGHT REMEDIES CLARIFICATION ACT OF 1989
BEFORE THE
UNITED STATES SENATE
COMMITTEE ON THE JUDICIARY
SUBCOMMITTEE ON PATENTS, COPYRIGHTS, AND TRADEMARKS
MAY 17, 1989

Summary of ADAPSO and SPA Testimony
Senate Judiciary Committee
Subcommittee on Patents, Copyrights, and Trademarks
May 17, 1989

ADAPSO, the Computer Software and Services Industry Association, and the Software Publishers Association (SPA) strongly support passage of S.497, the Copyright Remedies Clarification Act of 1989, to permit copyright owners to sue state governments for damages in federal court.

Recent Eleventh Amendment decisions have upheld the validity of copyright owners' rights against states, but only with a truncated remedy. To make copyright rights real, Congress must back them up with the same remedies as against private infringers.

Getting meaningful copyright remedies against the states is a paramount business issue. Wholesale taking of software by states constitutes undisguised abuse of businesses, especially small businesses, by government bodies.

State immunity will destroy the incentive to market to states and their subordinate bodies, such as schools and libraries.

Congress does not tolerate foreign piracy. There is no reason why it should tolerate state government piracy.

Congress should act quickly before state infringement of foreign copyrighted works creates international embarrassment for the United States.

For further information contact Ronald J. Palenski, General Counsel, ADAPSO, Suite 300, 1300 North 17th Street, Arlington, Virginia 22209, 703/522-5055 or Mary Jane Saunders, General Counsel, SPA, Suite 901, 1101 Connecticut Avenue, NW, Washington, DC 20036, 202/452-1600.

Testimony of ADAPSO and SPA

Good morning, Mr. Chairman. I am David Eskra, Chairman of Pansophic Systems, Inc., of Lisle, Illinois. Pansophic is a world-leading provider of software with over 50,000 installed products at over 15,000 personal, midrange and mainframe computer sites. Our product portfolio is diverse and includes everything from sophisticated manufacturing applications to comparatively simple, "turnkey" graphic workstations. Pansophic was founded in 1969 and has grown to employ about 1,500 people with annual revenues of almost $200 million.

I am here today on behalf of both ADAPSO, The Computer Software and Services Industry Association, Inc., which I serve as Vice Chairman, and the Software Publishers Association. With more than 1200 corporate members between them, ADAPSO and SPA represent the entire spectrum of computer software companies, providing systems and application programs for home, business, and government use.

The U.S. software industry now comprises over 3000 firms, generating more than $35 billion a year in revenues, and growing at over 20% per year. The Commerce Department annually chronicles the continuing explosive growth of the software industry in its **Industrial Outlook**, putting it at or near the top of its growth industries list.

Both ADAPSO and SPA vigorously support S.497, The Copyright Remedies Clarification Act of 1989. The bill would explicitly empower software copyright holders to sue infringing state governments for damages in federal court. The bill would overrule recent appeals court decisions holding that Congress did not make such an intention clear in the Copyright Act of 1976.[1] ADAPSO and SPA believe prompt passage is in order for several reasons.

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[1] BV Engineering v. University of California, Los Angeles, 657 F. Supp. 1246 (C.D. Cal. 1987), aff'd 858 F.2d 1394 (9th Cir. 1988), cert. denied, 57 USLW 3614 (1989); Mihalek Corp. v. Michigan, 595 F. Supp. 903 (E.D. Mich. 1984), aff'd on other grounds, 814 F.2d 290 (6th Cir. 1987); Cardinal Industries v. Anderson Parrish Ass'n, No. 83-1038-Civ-T-13 (M.D. Fla. Sept. 6, 1985) aff'd 811 F. 2d 609) (11th Cir. 1987); Richard Anderson Photography v. Radford Univ., 633 F.Supp. 1154 (W.D. Va. 1986), aff'd 852 F.2d 114 (4th Cir. 1988), cert. denied 57 USLW 3536 (1989); Woelffer v. Happy States of Am., Inc., 626 F.Supp. 499 (N.D. Ill. 1985); Lane v. First Nat'l Bank, No. 88-1815 (1st Cir. Mar. 22, 1989).

1) Recent Eleventh Amendment decisions have upheld the validity of copyright owners' rights against states, but only with a truncated remedy. To make copyright rights real, Congress must back them up with the same remedies as against nongovernment infringers.

Mr. Chairman, your bill has a singularly apt title. The matter before us is the availability of meaningful remedies for copyright owners against state government institutions, and the intent of Congress that such remedies be available. I think it is fair to say that, until recently, the copyright community believed that the 1976 Copyright Act applied to states just as to all other copyright users. Several appeals courts have taken the rather scholastic approach, however, that when Congress says that "**Anyone** who violates any of the exclusive rights of the copyright owner...is an infringer of copyright", it does not necessarily mean to include states or state institutions.[2] The Copyright Office report[3] confirms the copyright community's interpretation, but these appeals courts have not followed the same well-reasoned path. We had hoped for a more appropriate judicial construction of the Act by the Supreme Court but when the Court declined to hear either of the Eleventh Amendment copyright cases presented to it for review,[4] we were obliged to turn to Congress.

We believe it is up to Congress to declare that states are not above the law, that they are consumers of works of authorship like any others and must expect to compensate creators just like everyone else. In short, Congress must make clear that states are to be responsible economic actors in society and not abuse their position as governments. Otherwise, the intellectual property community is left with the daunting prospect of repealing or qualifying the Eleventh Amendment through another constitutional amendment. That means a 50-state campaign for ratification just to stop state government piracy. States could beseech their own legislatures to defeat the proposal; all it would take to block ratification would be 13 states. Unless Congress acts, we are basically bereft of a meaningful remedy.

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[2] 17 U.S.C. Section 501(a) (emphasis supplied).

[3] *Copyright Liability of the States and the Eleventh Amendment: A Report of the Register of Copyrights*. Washington, DC: U.S. Copyright Office, June 1988.

[4] *BV*, *Radford*, *supra* note 1.

2) Getting meaningful copyright remedies against the states is a paramount business issue. Wholesale taking of software by states constitutes undisguised abuse of businesses, especially small businesses, by government bodies.

Mr. Chairman, I believe your are already familiar with the facts of the BV Engineering vs. UCLA[5] case, where the university simply duplicated the software of an SPA member company with no license, permission, or payment. The university is hiding behind the Eleventh Amendment at the expense of a very small business. Just look at the disparity in size: BV has revenues of less than $250,000, and only 8 employees. UCLA has some 30,000 students. More to the point, it is part of a university system with nine campuses and over 100,000 students. The whole state has over 300,000 employees and a budget over $40 billion. How can a small company possibly defend itself against blatant infringement by such an economic actor? It cannot.

My own company, Pansophic, has faced a similar situation in New Jersey. Again, look at the odds: a $200 million company, 1500 employees, against an entity with over 100,000 employees and a budget around $12 billion. We are one of the larger software companies, but the state still dwarfs us.

Last month, shortly after **Computerworld** ran a front-page story detailing the BV Engineering decision,[6] Pansophic was affected immediately. The state of New Jersey was using one of our products on a trial basis. If the trial succeeded, the state intended to license three copies. After publication of the article, however, a senior state employee referenced the BV case specifically and said that the state no longer intended to license three copies but only one. Over a month has now passed and the state has yet to purchase any Pansophic products.

Pansophic attempts to mitigate its exposure by requiring state agencies and universities to waive contractually any immunity rights they may have. Witnout exception this slows the sales process significantly. For example, Pansophic has been negotiating with the University of Oklahoma since late March over this single issue and there is no resolution in sight.

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5. supra note 1.

6. Mitch Betts, "Loophole lets states copy without risk," **Computerworld**, March 27, 1989, pp. 1, 6.

Clearly, some state officials do not grasp that software is one of this country's strategic resources. Nobody, including state governments, should be able to appropriate such highly valuable intellectual property with impunity. To the extent that anyone can pirate software and get away with it, the cash flow that supports R & D is hurt. R & D is, of course, essential if new software programs are to be developed and existing programs maintained and enhanced. The typical software company invests 5-10% of its revenues in R & D -- far above the average for U.S. industry. Inevitably, piracy threatens that level of effort and the ability to attract venture capital.

3) State immunity will destroy the incentive to market to states and their subordinate entities, such as schools and libraries.

My company can only respond to continued state immunity in two ways, both undesirable. We can raise prices for our software, knowing that licensing a single copy to a state is tantamount to giving a broad site license for the entire state establishment. Or, we can simply withdraw and refuse to deal under the current situation. The latter is, of course, exactly the opposite of what the Copyright Act is intended to foster -- broad dissemination of valuable works of authorship in an orderly way.

For some software, there is simply no effective defense against the broad state claims. Most popular software for personal computers is marketed through chains such as Radio Shack, Computerland, and Egghead Software Stores. Any state employee can simply walk into one of these stores and acquire a copy. Back he goes to the office and, suddenly, the state government establishment has the software at its disposal. The self-defenses I just mentioned are useless against this sort of conduct.

Other kinds of software do lend themselves to being withdrawn from state use. Companies can decide not to license custom or tailored software applications to schools, libraries, hospitals, and other state entities. If the situation is not changed, vendors will have little choice but to do so, unless they can charge large up-front fees. That may be possible for some vendors, but for others it will not work. States may find themselves without access to many innovative software packages.

4) Congress does not tolerate foreign piracy. There is no reason why it should tolerate state government piracy.

Last year, Congress passed a massive trade law. One of its provisions calls for the Trade Representative to designate foreign countries failing to extend adequate and effective protection for intellectual property rights.[7] If negotiations with a country do not yield acceptable results, the Trade Representative is directed to retaliate. In other words, Congress has told the world that its patience with intellectual property piracy is at an end.

I don't believe that piracy in California or New Jersey is any less important than piracy in Brazil, Thailand, or China. My industry cannot be expected to flourish if every public school district, every state university, every public library, and every state agency is told that it is acceptable to ignore copyrights. Incredibly, what the recent Eleventh Amendment cases have effectively done is to legalize state government piracy. It must stop, and only Congress can stop it.

5) Congress should act quickly before state infringement of works copyrighted by foreign citizens creates international embarrassment for the United States.

The Eleventh Amendment applies equally to U.S. citizens and citizens of foreign countries who are plaintiffs. If foreign citizens cannot sue effectively in our country, foreign governments will have an excuse, if not an incentive, to limit the rights of U.S. copyright owners within their borders.

Credibility is crucial as we try our utmost to reduce piracy of U.S.-created works abroad. With the U.S. trade deficit as high as it is, we simply cannot afford the continued loss of revenues from piracy, which the International Trade Commission has put at $40-$60 billion a year for all kinds of intellectual property.

It is not just a matter of depriving foreign negotiators of a comeback or a smokescreen. Quite the contrary -- **their complaints about state immunity from copyright liability would be entirely legitimate**. Their complaints would be just as legitimate as U.S. complaints were against Canadian cable TV systems, some governmentally owned, which aired U.S. programming without permission or payment. Happily, that practice will end under the U.S.-Canada Free Trade Agreement.[8] The U.S. absolutely cannot afford an embarrassing gap in its laws like this while sensitive negotiations are underway in Geneva to add an intellectual property code to the General Agreement on Tariffs and Trade.

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[7] Omnibus Trade and Competitiveness Act of 1988, P.L. 100-418, Sections 182, 1101-1106.

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Mr. Chairman, this concludes my prepared statement, and I would be happy to answer any questions.

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[8] Article 2006, Retransmission Rights.

Responses to Supplemental Questions Submitted by Senator DeConcini following the May 17, 1989 hearing on S.497, The Copyright Remedy Clarification Act

Questions for Mr. David Eskra:

1. Mr. Eskra, in your opinion, how much infringement should Congress tolerate before it should act?

Answer:

Mr. Chairman, I believe that there is no need for Congress to tolerate any infringement before acting to make it clear that there is not a duel standard for copyright liability, one for states and another, stricter one for everyone else.

As I indicated in my testimony, my company already is experiencing problems in dealing with certain representatives of state governments in negotiating sales of software, even though the judicial precedents which are the focus of your bill are less than a year old.

Quite apart from the fact that we now have evidence that some state government employees do intend to treat their copyright responsibilities differently as a result of these recent court decisions, I believe that the failure of Congress to act quickly, could suggest to the public in general that copyright infringement is not an issue to be taken seriously. This would have a detrimental effect on respect for copyright, even among commercial users. The result would be the unraveling of copyright protection in the United States at precisely the time when it has taken on its greatest importance, historically, as a necessary incentive to very important industries.

2. Mr. Eskra, do you believe that the reason that no state government or association representing states has opposed restoration of state liability either at the Copyright Office or in Congress, is because they realize, as you clearly point out in your statement, states may find themselves without access to the very important copyright material they need? The states themselves realize that they stand to lose more from unrestricted infringement than they stand to gain?

Answer:

Yes, Mr. Chairman I believe that you have identified a major reason state governments have not officially opposed this legislation. However, I believe that there are at least two other reasons.

The first reason was given to our counsel by a state legislator who serves on the Law and Justice Committee of the National Conference of State Legislatures. Following a recent meeting at which the Law and Justice Committee considered S.497 and decided not to oppose the legislation, this particular legislator summed it all up in stating, "Sovereign immunity is not a license to steal."

The second reason is that state governments reflect the thinking of their citizens who in many cases are creators and creative industries which rely on the incentives and protection of the copyright law and in other cases are citizens who understand the unfairness and injustice which result from double standards.

Additional Questions for Panel II:

1. In your opinion, why are statutory damages a necessary element of infringement suits against states?

Answer:

Mr. Chairman. To the extent that Congress determined many years ago that statutory damages provided the most workable system of remedies in copyright infringement cases, there is no reason to distinguish between state governments as defendants and others. Remember that a major reason for any system of damages is to make whole a plaintiff who has suffered a loss as a result of illegal or tortious conduct of another party. I can see no reason why creators who have been harmed by infringement should be denied the right to be made whole simply because the perpetrator of the infringement was an employee of state government.

A major reason for the use of statutory damages in copyright infringement cases is difficulty of determining actual losses in such cases. That is not to say that actual loss does not occur, but often it is difficult to quantify. Because of this, Congress has determined that the most efficient system of damages in copyright infringement cases is a system of statutory damages.

It also should be remembered, Mr. Chairman, that we are not talking about large amounts of money. Currently, statutory damages for non-willful infringement range from $500 to $20,000, at the discretion of the court, for each infringed work. Furthermore, if the court finds that the defendant "was not aware and had no reason to believe his or her acts constituted an infringement" damages may be reduced to $200. Under these circumstances, I do not believe that it is reasonable to relieve states from the same obligations other litigants incur in infringement suits.

2. Do you see any difference between suing private companies and public institutions for damages? Doesn't it make some sense to you that taxpayers and state treasuries shouldn't be

liable for damages resulting from the actions of state employees? Weren't many of the infringement cases that have been brought the result of infringements by non-elected, non-policy making state employees, just trying to do their best to serve the people of the state? Why should the taxpayers be liable for their mistakes.

Answer:

Mr. Chairman, I do not see any difference between suing private companies and public institutions for damages. If one of the 1200 employees of my company infringes a copyright or commits a tort, the company and its stockholders bear the responsibility. The same is true of governmental entities. Indeed, in many areas of law state governments are regularly sued for the tortious conduct of their employees. If taxpayers bore no responsibility for the actions of state employees, then managers of those employees would have absolutely no incentive to require prudent conduct, including respect for copyrights.

There is a second consideration which is raised in your question, Mr. Chairman, which I believe also requires comment. You have raised the issue of whether actions of non-policy level state employees should be treated differently from the actions of policy makers. While I believe that in the case of copyright infringement the answer is no, I would observe that the basis for the problem addressed by your legislation is the tension between the federal legislative power and states' rights under the Eleventh Amendment. Certainly, to the extent that there is any Eleventh Amendment argument in support of different treatment for states, it lies in the area of policy making and the prerogatives of state policy makers, rather than in the area of activities routinely carried out by state employees.

Senator **DeConcini**. Mr. Eskra, thank you very much.

Your last point is one that I think we need to follow up on. Many countries that we do business with, heavy in the area of competition and copyright material, have State enterprises. If State immunity is permitted to stand in our country, then it would certainly be a temptation for other countries to pass laws allowing immunity for any State enterprise, would it not?

Mr. **Eskra**. Yes, sir. We have plenty of examples of that in countries like France and England.

Senator **DeConcini**. Mr. Eskra, subsequent witnesses will testify that S. 497 is premature because there is no data available regarding infringing by States on copyright material. In your testimony you clearly gave us a couple of examples of problems that you are facing already, both in New Jersey and Oklahoma. Is it your understanding that such problems are widespread, and are they increasing?

Mr. **Eskra**. They are clearly widespread and they are clearly increasing. We are talking about issues that are only within the past several months. I think the tip of the iceberg is only now beginning to show.

Basically what it is causing is that contract negotiations, as I said in my testimony, are lengthening, and the States and the universities are being deprived of the use of these products, which they clearly desire to use.

Senator **DeConcini**. Mr. Healy, is it your perception that schools and teachers may infringe on your copyright material out of ignorance of the copyright law or out of inadvertence, or is it that they are carefully guided and counseled that they can infringe?

Mr. **Healy**. I have had experience with both the ignorant and those who willfully and knowingly do it. Let me give you a couple of quick examples.

I visited a major metropolitan school system and the director of audiovisuals for the entire school system brought me into a room and showed me a machine that we call a macrobuster. Many of the products we put out have macrovision which protects the film from being copied, but as soon as you come up with something like that, someone finds some way to unscramble it.

He knocks them right off and has no qualms about it. He says that they can not afford it, so they copy them.

Senator **DeConcini**. So you have some experience with people just blatantly using what the law now permits them to do in the sense that they are getting something for nothing?

Mr. **Healy**. That is exactly right. Also, when we have a program broadcast—many of our programs are in series—and they will call up saying, "We missed the taping of two and three. When are they going to be on again so we can tape them? We only got one, five and six." You just want to say to them that this is totally illegal and you should not be copying this. It is copyrighted by us and if you want to purchase it——

Senator **DeConcini**. Now who is doing that?

Mr. **Healy**. People who watch television or educators.

Senator **DeConcini**. Are they doing it just for their own private use?

Mr. HEALY. I am sure that there are some doing it for their own private use, but there are teachers who closely watch the public broadcasting stations who have no compunctions about just lifting it right off the air and using it.

Senator DECONCINI. As a small businessman, Mr. Healy, are you satisfied that small business has had a chance to be heard on this subject adequately?

Mr. HEALY. I think so, and it is good to stress that. We are a small business, and it is to protect small businessmen. If you act quickly on this, I think it can be nipped in the bud.

I think it is important to send the message out there that there is no such thing as a free lunch. You can not take what does not belong to you. There are hundreds of companies that do this for their livelihood, and I fear that they will go under.

Senator DECONCINI. Mr. Schmitz, how do you respond to the argument that may be made of a public interest here, say in universities being public schools or public schools in general, where they need some consideration for the benefit of the massive public education system and they ought to be able to either have a preference in your licensing—which I am sure you would oppose—to have the material, or that, by gosh, because they are the State and because they are serving a public interest rather than a private proprietary interest, they ought to be granted this continued exemption?

Mr. SCHMITZ. Two reactions. From a personal standpoint, I do not see why we would draw the line between the private institutions and the State institutions. I think it would be unfair to the private institutions who are fewer in number and, if you made that argument, should also be granted the exemption.

But far greater concern is: What will happen to the quality of education overall? In the end in our business, the people who will probably suffer most are the authors who spend a great deal of time crafting textbooks. If those textbooks are available without due recompense or financial rewards for the efforts made, they will stop writing those books. Soon, the educational system will not have that library of materials to copy from and the quality of education will go down.

Senator DECONCINI. However, isn't there the argument that the universities and the schools will deal directly with them and pay them, but maybe not as much as you would?

Mr. SCHMITZ. I guess that could be a counter argument. I do not think the system would work that way because the authors frequently see this as an entrepreneurial activity that they can do outside of the confines, regulations, and restrictions of their institutions.

Senator DECONCINI. Your point is well taken. As pointed out in my statement about *U.S.C.* v. *UCLA,* if this were allowed to stand, UCLA could go ahead and infringe and pay no price for that, where another fine university that does not happen to be a public entity would be subject to the infringement penalty, putting them at a great disadvantage.

Mr. SCHMITZ. Absolutely.

Senator DECONCINI. Thank you very much, gentlemen.

Our next witness will be August W. Steinhilber, chairman of the Educators' Ad Hoc Committee on Copyright Law.

Mr. Steinhilber, your full statement will be printed in the record as if read. Would you summarize that for us, please?

STATEMENT OF AUGUST W. STEINHILBER, CHAIRMAN, EDUCATORS' AD HOC COMMITTEE ON COPYRIGHT LAW, ALEXANDRIA, VA

Mr. STEINHILBER. Thank you, Mr. Chairman. I appreciate the opportunity to appear before you today.

The Educators' Ad Hoc Committee consists of virtually every nonprofit organization representing every school, college, library, public and religious, from kindergarten through graduate school. We represent teachers, professors, librarians, and school boards. As I indicated in my prepared statement, while I am representing the Educators' Ad Hoc Committee, I am actually general counsel for the National School Boards Association.

The testimony which you have before you was circulated among our members, and it has been signed off by virtually everyone. We have had no one object. Indeed, I have specifically been told by the National Education Association, the American Association of School Administrators, the American Library Association, the American Association of University Professors, and the American Council on Education, which represents all of higher education, both public and private, that they have signed on specifically and wanted that to be known to the committee.

We can not support S. 497 in its current form for three reasons. One, the legislation is premature. You already indicated that the *Union Gas* case has not been decided. Two, there has been no evidence of substantial harm. Three, statutory damages and attorneys fees are excessive and not warranted.

If States and instrumentalities of States were totally immune from copyright infringement, I would not be here making this statement this morning. Most of us in education do not want copyright to be destroyed, nor do we even want it to be seriously damaged. We support copyright. We are not convinced, as suggested by those representing the copyright industry, that such damage is realistic from the narrow issue which is before us.

To show our good faith, let me recall that we were before this very committee most recently urging that the United States join the Berne Convention. During the debate we discussed the fact that we supported copyright, but we have to look at a balance between the rights of users and producers. With respect to Berne, the right was with the producers, not the users.

Before and after all of these judicial opinions which have been referenced were issued, it has been our public policy—and of all the organizations which I represent—to inform our members that copyright still applies to them and that they are legally obligated to obey the law. The only change brought about by these suits is the scope of the lawsuit. The responsibility to obey the law remains.

Public officials are under oath to do just that—to obey the law. It should be noted that State officials have to comply with many laws outside of the field of copyright. Nearly all of them contain no provisions for monetary damages, and yet, there is general compliance when the only thing that is available is either injunctive relief or the right of mandamus.

It has already been documented time and time again that there is no immediate injury in terms of massive infringing action. The infringements that have taken place, by the way, have been ones that we ourselves try to police. So, the actual losses are either speculative, isolated, or anecdotal in nature. If you wish, I would like to go into some things like the *BV Engineering* case later. The facts are quite different than what you may have been led to believe.

There are a number of public policy questions, and the Judiciary Committee is the right place for this to be reviewed. They may impinge upon copyright and they may not, but they are public policy questions.

First of all, I am reminded of the old saying, "This is a Constitution which we are about to discuss." In our federalistic form of intergovernmental relations, any discussion of whether to change the law or the Constitution should be based upon a long hard look at intergovernmental relations, federalism, and the impact that any precedent this committee would set would have on other laws of a similar ilk.

The second item of public relief is: Is injunctive relief really enough protection? I point out that we have looked at the whole question of future damage in other aspects of the copyright law. Section 108(1) specifically has a 5-year review. If indeed this is a major problem, let's look at a 5-year review to see whether or not there is a major problem out there, not a speculative one.

I would also ask the next public policy question: Is it appropriate for public funds from taxpayers to be used to pay for statutory damages which may be in excess of the actual damages suffered by a copyright owner? This is a major issue. I also ask whether attorneys' fees are appropriate in cases involving State government, when the issue is purely economic.

Attorneys' fees are very appropriate in civil rights cases or similar circumstances wherein we discuss the legal concept of private attorney general. Said in another way: do attorneys' fees in copyright infringement fall into the same classification as civil rights? I think that is an issue which has to be discussed.

Finally, we are not sure whether or not this legislation is necessary at all. Federal courts can—under 42 U.S.C. 1983—find a State liable. That law says that in "any rights privileges or immunities secured by the Constitution and laws," there can be a granting of not only damages but also attorneys' fees. By the way, 1983 has been in existence for well over 100 years. Yet, in spite of the precedent—whether BV Engineering or any of the others—no copyright case has been tried under 1983.

We question why, because we have a long history of everything from zoning cases to child nutrition cases which are all 1983 cases. We all know how to operate those in a 1983 milieu. The question is: Why must there be separate and distinct legislation when it relates to copyright?

Mr. Chairman, I will make one reference to the *BV Engineering* case because it has been discussed so many times as the bad guys versus the good guys—little BV Engineering versus the huge UCLA. What were the facts in that particular case?

The facts in that particular case were that UCLA in one of its departments bought several computer programs. In the material that the school received was a little document which said, "You may use this and make copies for personal use." Seven copies of it were made, and when BV Engineering found out about it, it informed UCLA.

UCLA made a counter offer, saying, "We are sorry. We will return all of the copies to you." That offer was there, but BV Engineering went to court. I dare say that this is not a little guy, big guy kind of question. There is an old doctrine which we all know from the law of clean hands. I begin wondering when I see these.

There are other cases. For example, the discussion on Wisconsin raised the issue of sovereign immunity. I have started a little truth operation. It's called: What are the facts behind each one of these?

By the way, I am doing a review of New Jersey right now. I talked to the attorney general's office yesterday.

What we found out in Wisconsin, even though it is referred to in Ralph Oman's statement—was the following: Some video tapes were gotten from a mom-and-pop video store and were used by the department of corrections.

The State was then told that this is in violation of copyright law. A suit was filed and immediately the State did two things. You have only heard the one.

The first thing is that they brought sovereign immunity as a defense, but what did they do secondly? They entered into a contract. Now there is a licensing arrangement for those same video tapes to be used in those institutions.

Now, going back to my original statement that this is a Constitution we are discussing. If we could be sure that indeed there are some damages here which cannot be taken care of, which the industry should come forth and describe, I think we could come to some kind of a compromise agreement. Right now, we think this legislation is premature.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Steinhilber and questions and answers follow:]

Educators' Ad Hoc Committee on Copyright Law

Chairman
August W. Steinhilber

Executive Planning Committee
Eileen Cooke
Sheldon Elliot Steinbach
Al Sumberg

Secretary
Michael H. Cardozo

SUMMARY
OF STATEMENT BY
EDUCATORS' AD HOC COMMITTEE ON COPYRIGHT LAW

- Our basic responsibility is to balance the interests of users with the interests of copyright owners. We support copyright and, indeed, recently played an important role in pushing for U.S. adherence to Berne. The issue in this case is far more difficult because it involves the United States' Constitution.

- The issue on sovereign immunity is very narrow as it relates to copyright, because copyright does apply to states and their instrumentalities, and injunctive relief is available. The only question is the availability of statutory damages and attorney's fees.

- We have repeatedly told our membership that their responsibility is to obey copyright law. This is no different for our members than it is when we obey other laws which do not contain statutory damages.

- S. 497 is premature. It is the U.S. Constitution that is being discussed, not copyright. There is no overriding national public policy issue at this time.

    -- The Union Gas case has not been decided.

    -- There has been no real data produced showing injury.

    -- Title 42 USC 1983-88 probably already applies. The issue has never been litigated.

    -- Even if there were no constitutional issue, statutory damages are inappropriate because the public would have to pay an amount in excess of the real losses.

    -- Attorney's fees are appropriate in private attorney general statutes, such as 14th Amendment civil rights cases. They are not normally considered appropriate for purely economic issues.

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A coalition of non-profit organizations representing education, libraries, and scholars

Educators' Ad Hoc Committee on Copyright Law

Chairman
August W. Steinhilber

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Eileen Cooke
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Michael H. Cardozo

STATEMENT OF AUGUST W. STEINHILBER
ON BEHALF OF THE
EDUCATORS' AD HOC COMMITTEE ON COPYRIGHT LAW
BEFORE THE
SENATE JUDICIARY SUBCOMMITTEE ON
PATENTS, COPYRIGHTS AND TRADEMARKS
ON
THE U.S. CONSTITUTION, SOVEREIGN IMMUNITY AND COPYRIGHT
S. 497
MAY 17, 1989

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STATEMENT ON BEHALF OF THE EDUCATORS' AD HOC COMMITTEE ON COPYRIGHT LAW BEFORE THE SENATE JUDICIARY SUBCOMMITTEE ON PATENTS, COPYRIGHTS AND TRADEMARKS ON THE U.S. CONSTITUTION, SOVEREIGN IMMUNITY AND COPYRIGHT

S. 497

Thank you, Mr. Chairman. I am August W. Steinhilber, testifying as Chairman of the Educators' Ad Hoc Committee on Copyright Law. I am also General Counsel of the National School Boards Association. The Committee consists of nonprofit organizations representing virtually every school, college and library, public and religious affiliated, and from kindergarten through graduate education, throughout the country. We represent teachers, professors, librarians and school boards. One of the principal concerns of the Educators' Ad Hoc Committee has been the preservation of the limited right of educators and scholars to use material that they need for their teaching and research.

The Educators' Ad Hoc Committee met on January 27, 1989. This testimony reflects a consensus of that particular meeting.

We cannot support S. 497 in its current form:

1. The legislation is premature.
2. There has been no evidence of substantial harm.
3. Statutory damages and attorney's fees are excessive and not warranted.

BACKGROUND

On March 20, 1989, the U.S. Supreme Court denied certiorari in the case of BV Engineering v. UCLA. Thus, the 9th Circuit decision was left standing (858 F.2d 1392 (1988). That decision along with recent decisions in other federal courts held that states cannot be sued for money damages arising out of copyright infringement. Indeed, there has been uniformity in the circuits upholding the constitutional doctrine found in the 11th Amendment. However, in all these cases, injunctive relief could be obtained.

The copyright industry has been very upset with these rulings and has undertaken intensive lobbying on the issue both with the American Bar Association and with the U.S. Congress. On August 3, 1987, Congressmen Kastenmeier and Moorhead, representing the Chairman and Minority Leader on the Subcommittee on Courts, Civil Liberties, and the Administration of Justice, in an effort to obtain information on the issue, requested that the Copyright Office conduct a complete study on sovereign immunity and copyrights. That report was issued June 1988. The recommendations were twofold:

1) If the decision in the Union Gas case [1] permits Article I abrogation, then Congress should amend the Copyright Law to clarify the law's intent that states should not be immune under the 11th Amendment for damages under the copyright law.

2) If the Union Gas decision does not permit congressional abrogation, Congress may amend federal law to provide that individuals may sue states in state court for damages for copyright infringement.

PUBLIC POLICY ISSUES

It has already been documented by the testimony given by Ralph Oman, Register of Copyrights, in the House hearings heard earlier this year, that while he had received a number of statements asserting that there could be injury to copyright owners (such statements were supported by statistics which described the size of purchases made by states), there has been no massive violation of copyright laws by states and their instrumentalities. To date, the comments on actual losses are either speculative or isolated anecdotal in nature. If that is the case, we believe a number of public policy issues must be addressed, some of which are outside the scope of copyright but are well within the scope of the Senate Judiciary Committee.

- It is provisions of the Constitution of the United States that are at issue. In our federalistic form of intergovernmental relations, any discussion of changing the law or the Constitution should be based on discussion of intergovernmental relations, federalism and the impact or precedent any change in the copyright law might have on other laws.

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[1] United States v. Union Gas Co., 832 Fed 1343 (3d Cir. 1987) cert. granted, 108 S.Ct. 1219 (1988).

- Is injunctive relief really enough of a protection for copyright owners from infringements by states, given the limited real damage to date? Perhaps no change in the law is warranted at this time and Congress should instead look at a five-year review of the perceived problem similar to the one that is already in copyright law in Section 108(i).

- Through the Copyright Law, Congress grants a limited monopoly or governmental license. Query: Should there be a concomitant public purpose/public benefit required of private enterprise as in the case of other arenas of monopoly and license? For example, television stations must provide public service support as a condition of retaining their license, and in another arena, developers of property must set aside land for parks, roads, etc. as a condition for receiving a zoning permit. Perhaps losing the right to money damages is a reasonable price for the copyright industry to pay for the rights which they have received under federal law.

- Is it appropriate that public funds from taxpayers be used to pay statutory damages which may be in excess of the actual damages suffered by a copyright owner?

- Are attorney's fees appropriate in cases involving state governments when the issue is purely economic and will normally affect a single entity? Attorney's fees are very appropriate in civil rights cases or similar circumstances involving the legal concept of the "private attorney general" -- antitrust cases and environmental cases are similar in nature in that the need is the protection of the public at large, not the economics of a single corporate entity. Said in another way, do attorney's fees for copyright infringement fall into the same classification as civil rights?

- If attorney's fees are deemed to be necessary, is any new legislation necessary? Federal courts can grant attorney's fees under 42 USC 1983 which provides an individual a right of action if they have been denied "any rights, privileges, or immunities secured by the Constitution and laws" (emphasis added). 42 USC 1988 permits the granting of attorney's fees to the prevailing party in Section 1983 actions. Subjects such as child nutrition and zoning have been made by the courts to be Section 1983-88 issues; copyright may be already covered by that law. Furthermore, copyright would then be litigated the same as all other claims against states. No additional legislation may be necessary.

OUR POSITION ON S. 497

If states and instrumentalities of states were held to be totally immune from copyright infringement, there would be an impact upon the copyright industry and intellectual property produced. Most of us in education do not believe that copyright should be severely damaged, perhaps fatally. We are not convinced, as suggested by those representing the copyright industry, that such damage is realistic from the narrow issue before us.

As this Committee may recall, the Ad Hoc Committee has supported copyright any number of times, the most recent being supporting the United States in joining the Berne Convention. In fact, it played a very active role in getting the necessary legislation enacted. During that debate we cited the need to balance the rights of both producers and users, and joining Berne would help stop piracy of copyrighted materials.

Our support of copyright continues today.

Before and after these judicial rulings on copyright were rendered, it has been our public policy position to inform our members that/the copyright law still applies to them and they have a legal obligation to obey the law. The only change brought by these cases is the scope of any lawsuit -- the responsibility to obey the law remains, and public officials are under oath to do just that -- obey the law. It should be noted that state officials have to comply with many laws and nearly all contain no monetary damage provisions. There is general compliance even when the only litigation is for injunction or mandamus.

We do have several suggestions to be considered should the Union Gas case hold that Congress has the authority to abrogate sovereign immunity and that this committee is convinced that factually there is evidence of actual, not merely potential, injury. In addition to the procedural protections already found in §504(c)(2)(i) and (ii):

- Change the definition of "fair use" as it applies to states and instrumentalities of states. Fair use should be judged in terms of an adverse impact on the actual market, not potential market.

- Second, limit recovery from states and instrumentalities to actual damages, not statutory damages.
- Do not specify in copyright law the awarding of attorney's fees in copyright infringement cases brought against states and instrumentalities of the states. If attorney's fees are necessary, they should be brought under 42 USC 1983-88.
- We support the position of the Register of Copyrights in requiring that all copyright cases against states and their instrumentalities should be brought in state courts. (We recognize that this was a secondary position of the Register.)

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Educators' Ad Hoc Committee on Copyright Law

Chairman
August W. Steinhilber

Executive Planning Committee
Eileen Cooke
Sheldon Elliot Steinbach
Al Sumberg

Secretary
Michael H. Cardoso

June 5, 1989

The Honorable Dennis DeConcini
Chairman, Patents, Copyrights
and Trademarks Subcommittee
Senate Judiciary Committee
SH-328 Hart Senate Office Building
Washington, DC 20510-0302

Dear Senator DeConcini:

Thank you for inviting me to testify before your committee. I appreciate the courteous manner with which I was treated on a highly controversial issue. As you requested, I am attaching your supplemental questions and my responses for inclusion in the record on the Copyright Remedy Clarification Act, S. 497.

Sincerely,

Gus Steinhilber

August W. Steinhilber, Chairman
Educators' Ad Hoc Committee on
Copyright Law*

Enclosure

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*Mr. Steinhilber was elected by other organizations to chair this committee. He is employed as General Counsel, National School Boards Association, which is a member.

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SUPPLEMENTAL INFORMATION
From
EDUCATORS' AD HOC COMMITTEE ON COPYRIGHT LAW

QUESTION 1: Do you purport to represent "Virtually every school, college and library, public and religious affiliated, and from kindergarten through graduate education, throughout the country" in opposing S. 497 in its current form?

ANSWER: Perhaps the statement which was presented to the committee was not clear. The Educators' Ad Hoc Committee on Copyright Law was initially formed during the 1950s. It is a coalition of those individual education organizations that have a concern with copyright law. Those organizations have agreed to the statement which was submitted to the committee. These organizations include: The American Council of Education (an association that represents virtually all public and private colleges and universities), National Education Association (an organization who represents one million teachers), The American Association of University Professors, The American Library Association, The American Association of School Administrators, The International Reading Association, The Council of Chief State School Officers, and my own organization, the National School Boards Association. It is those organizations which have agreed to the statement which was presented to the committee. As for the National School Boards Association, our legal and political positions are determined by our two governing bodies. The first is our delegate assembly wherein each state has at least 2 delegates and as many as 5 based on population. All delegates must be local school board members. Second is our Board of Directors which consists of 15 school board members from each of our 5 regions plus our officers. Our positions on copyright are approved by these bodies. Other organizations have similar processes.

QUESTION 2: If the study by the Copyright Office is not "real data showing injury" how would such data be available to the Congress?

ANSWER: Our concern is not that the Copyright Office can provide real data, if it exists--our concern is that the report does not contain such data.

The report does a marvelcus job of tracing the historical development of the 11th Amendment to the U.S. Constitution, including the application of the 11th Amendment to copyright infringement suits. There are, however, some major flaws both in the legal discussion and in the factional information used by the Register to draw his conclusions.

I. Legal Issues

The first flaw on the legal side is an error of omission in developing the state survey on sovereign immunity. Every state in the Union provides either by constitution or by statute a remedy for the unlawful taking of private property by the state government. Yet, that portion of research was not included in the document.

The second flaw is a failure to discuss United States Court Title 42 USC 1983-1988. Suits brought under this provision of the U.S. Code must allege that a person has been denied a right, privilege or immunity secured by the Constitution or the laws of the federal government. The report did not discuss the possibility of litigation under this federal law.

II. Factual Information

The report is an accurate and appropriate description of the advocacy documents which the Copyright Office received from copyright proprietors. However, there was no evidence that any effort was made to verify facts presented in the materials submitted to the office. There are enough mistakes and/or misleading claims which lead one to believe the information given to the Copyright Office is not correct. For example:

- The statement is made that state correctional authorities in Wisconsin have been and continue to be in violation of copyright law. In reality, the facts of the case are that state correctional authorities did rent video tapes to show to inmates. Copyright owners did file suit. After the state initially defended itself on the basis of sovereign immunity, it then went ahead and negotiated a contract/license with the copyright owners so that it could properly use those movie videos without violating copyright law.

- The Radford University case is cited as an example of copyright misuse. It turns out from the facts that Radford University had a contract with a design organization for which the plaintiff made photographs for eventual use by Radford. The design organization informed the University that it owned all of the photographs. It turns out that of the approximately 1,500 photos, one may have been used without permission of the photographer/plaintiff.

- BV Engineering is another case cited for state abuse. The UCLA Physics Department purchased seven software items from BV Engineering, whose catalog expressly permitted purchasers copying for personal use and backup purposes. Subsequently, BV Engineering accused UCLA of unauthorized use even though the Physics Department had only made three copies for backup use and ten copies for its personnel. UCLA believed it was authorized to make a copy, but nevertheless offered to destroy or ship the copies back to the plaintiff, and further promised that it would make no further copies. Instead, BV Engineering filed suit.

An entire section of the report was spent outlining the fact that negotiations had to take place between the publishers and states in the adoption of textbooks. Such negotiations have nothing to do with copyright. Negotiations are a regular part of business. Perhaps the reason that this information was supplied to the Copyright Office is a hope that copyright can be used to lessen negotiations.

The statistical information in the report either contains a great number of non sequiturs or is incorrect. For example:

- The report states that the college textbook industry is $1.4 billion, and sales of textbooks to elementary and secondary schools is $1.5 billion. The analogy continues; therefore, the industry is in jeopardy! The mere fact that the sales are that large does not give rise to the conclusion that there are infringing uses or that there is any threat of massive infringing.

- One of the most glaring errors is the discussion of the trend that nationwide additional aid to education and revenue for education is coming from state and local units of government. The fallacious argument is made that with the reduction of federal aid to education, the states have had to pick up a greater share of the textbook costs and, therefore, the issue of sovereign immunity is a greater threat. Even if one were to accept the tortuous reasoning, factually the information is incorrect. Few federal funds have ever been used for

> textbook purchase. Purchase of textbooks has always been predominantly the responsibility of state and local units of government. Total federal funds for elementary and secondary education have never exceeded ten percent nationwide. The other ninety percent comes from state and local sources. Of the federal contribution of ten percent, very, very little was ever used for textbooks. At one time, the Elementary and Secondary Education Act, Title II (later Title IV) did provide funds for libraries and textbooks, but nearly all of these monies went for either library books or audio-visual equipment. The height of that program was 1981 when the total appropriation was $171 million. The program was consolidated out of existence in 1981. That $171 million should be compared to nearly $8 billion of other federal elementary and secondary education funds--a small federal figure.

If the report said that there was a potential of harm in the marketplace, the answer is, "of course, but the potential was there whether or not statutory damages was a remedy."

QUESTION 3: Assuming that statutory damages are appropriate for copyright infringement because that is indeed the law, why are statutory damages appropriate as to one category of infringers and not to other? Isn't the whole idea to deter copyright infringement? If a copyright owner's property is stolen, why should he care whether it is by a private or public infringer?

ANSWER: Statutory damages may be appropriate for one category of infringers and may not be appropriate for others. Legislation on copyright, like any other piece of federal legislation, must balance equities between and among parties. Equitable treatment does not necessarily mean identical treatment. (For example, attorney's fees are not permitted under the copyright law in suits brought against the U. S. Government. Certainly, states should be afforded the same protection.) If the question of statutory damages involves an issue with two commercial entities, the situation is one of both reimbursing someone who has had their property misused and deterring any such future use, when statutory damages makes eminent sense. In sovereign immunity issues involving public funds, there must be a concern with the use of public funds balancing the need of property owners. Property owners should be reimbursed for any loss caused by an infringement, but should not be reimbursed for any loss exceeding the real loss they have suffered.

QUESTION 4: If Congress should not act now because there has not been massive violation of copyright, when should it act? How much plagiarism should one of your members schools tolerate before it acts? How much theft? How much violence? How much drug use?

ANSWER: The question presented gives us at least two avenues of approach. The answer to the question of "when should Congress act" is predicated on the fact that it is the Constitution of the United States, our system of federalism, as well as an issue of sovereign immunity with which we are dealing, not an issue of copyright. Whenever the issue is of such national importance in a constitutional sense, the answer to "when should Congress act" is that it should act only when there is an overriding public policy, and then it should react only in the narrowest sense in terms of minimal intrusion into a constitutional area.

Secondly, the question also suggests that we in education have an obligation to obey the law, which, as indicated in our testimony, we gladly accept. If students or employees use drugs or engage in any other antisocial behavior, we have a responsibility to correct those activities. Similarly, if there are infringement actions, we should be given the opportunity to correct those problems as we do with others.

It should be underscored again and again that those of us who represent governmental bodies must obey hundreds, if not thousands, of laws--which we do obey. With most of these laws the only legal action that can be brought against the public official is either an act of mandamus or injunction--not for damages. Yet, we obey the law because it is our responsibility, not because there is a question of money damages. We believe that we have a public responsibility which transcends the monetary issue.

QUESTION 5: If the purpose of copyright is the encouragement of creative enterprise by our citizens in the interest of the public, then isn't the discouragement of infringement also in the interest of the public at large? Especially, if the creative enterprise is for a public benefit like the education of our children? Or the public safety?

ANSWER: Copyright is a government-sponsored monopoly or government license. The courts have called it a monopoly. The years of legislative history on copyright indicate that it is, indeed, a government monopoly. Like all government licenses, it serves the public interest for a limited time and for limited purposes. Lest we forget, we are not discussing protection of private citizens from the violation of civil rights guaranteed by the Bill of Rights. Instead, we are discussing an issue which involves a major corporation acting in concert on a legislative matter where their interest is purely commercial. These industries include the publishing industry, the computer industry, record industry, and the motion picture industry--none of whom are powerless to enforce their rights, not only in copyright but in contract. (Parenthetically, perhaps a great deal of the concern the copyright industry has expressed to Congress stems from the fact that they do not want to enter into full contract negotiations with users but prefer to have additional protections provided by Congress.) Yes, there is a public interest in protecting these property rights; however, the issue in question is one of degree, in terms of both degree of protection and degree of ways that the protection is designed. As pointed out earlier, the awarding of attorney's fees is not available in cases where the United States is the defendant. It is doubtful that this provision in current law either encourages or discourages infringement by the U.S. Government.

The questions seems to suggest that there is but one public interest on the issue and that opposition to the legislation is opposition to creativity. As was discussed in our testimony, the Educators' Ad Hoc Committee has supported copyright. We have distributed information about the law to our members. We have held workshops on how to comply with the law. We joined the copyright industry in supporting U.S. adherence to Berne. We have told our members to obey the law even after the issue of governmental immunity arose. We believe that this bill along with S. 198 is not necessary. The balance between protecting the copyright industry and educational users is being tipped in favor of the industry and contrary to good public policy.

In addition, it should be pointed out that part of the copyright industry already receives public benefits beyond that for which they enjoy it in copyright. The biggest example is that related to postal rates. That, indeed, is one of the ways of protection that Congress has provided to a portion of the copyright industry.

QUESTION 6: Do you have any explanation as to why organizations representing states such as the National Association of Attorneys General or the American Governor's Association (check the right name) haven't opposed S. 497? Nor has any state individually, including those which were defendant's in the lawsuits which have already been brought?

ANSWER: The Educators' Ad Hoc Committee only has education associations as members. Therefore, it does not have as its members either the National Association of Attorneys General or the National Governors Association. Hence I cannot provide you with an answer as to why they have not testified. I do know that California, Massachusetts, and Virginia did submit statements to the Register of Copyrights indicating their concern with respect to any change in governmental immunity, and the state library of Pennsylvania also submitted a statement to the Register. These were the states that were involved individually in the lawsuit. The Register's report has been submitted to Congress and has been made part of the record.

***

Senator DeConcini. Mr. Steinhilber, let me ask you a couple of things. You point out the UCLA case.

In a hypothetical—not that particular case but using UCLA—assume sovereign immunity applies to UCLA and only injunctive relief is available against them, and assume Mr. Healy or somebody else here who sold UCLA some material and UCLA went ahead and infringed on the copyright, using and multiplying it, using it very lucratively for their students and for whatever other uses they want. Under the present law, would you support not allowing any action against UCLA?

Mr. Steinhilber. I am not so sure about that. That is why I said under 42 U.S.C. 1983, I really think they have a right of action.

Senator DeConcini. That deals with civil rights, I'm told. Is that correct?

Mr. Steinhilber. No. The law says "Constitution and laws." It originally started out as a civil rights law, but we have now something called constitutional torts where that philosophy has gone far beyond the old narrow 14th amendment issue. There is another issue here, however.

The other issue is that, while Ralph Oman and the Copyright Office did put together a marvelous document, there is one little flaw in the document. That is when they made reference to sovereign immunity in tort and listed all of those States behind it.

Most State constitutions and most State laws have a provision in State law which says that if the State goes about an unlawful taking, there is a right of action against them.

Senator DeConcini. Yes, sure. That may be a good question to raise, but you are dealing with a State property right position, such as condemning your front yard to widen the street out front.

Copyrights seem to me to be a bit unique. That is why they are set forth in the Constitution, regulated by Congress, and not left as a property issue.

When you refer to 1983, it seems to me that if you believe you have a copyright violation, you should file it under the copyright statutes and try to resolve it. That is exactly what the court did. They said, "Yes UCLA, you have immunity."

On the other hand, if you were USC, you would not have immunity. Is that really fair for the educators that you represent, where some of them work for UCLA and some work for USC, and those who work for USC are going to have a definite disadvantage? It seems to me that it puts you in a conflict representing them. Maybe none of them work for proprietary schools. Perhaps they all work for public schools so you would not have that conflict, but it seems to me it presents a very difficult situation.

Mr. Steinhilber. It is very difficult because that was precisely one of the discussions which we had within the ad hoc committee. Then came the question, if in one way you say, "Yes, there is a conflict," but looked at another way, you have a constitutional issue involved. While it may not be viewed by some as being fair, it is a Constitution that we are discussing.

Senator DeConcini. If we let this stand as it is now, how do you answer the question that we are inviting retaliatory action from other countries, where they would then pass legislation granting exemption to their State enterprises, their State universities, or their public entities? Aren't we just asking for that to be expanded worldwide? This country has been the leader in protecting intellectual property rights, and certainly if their is anything we still have an edge on—I hope—it is just that.

That is the problem that this committee struggles with all the time. How do we encourage and nurture that competitive edge and be sure that the United States does not lose that edge?

Mr. **Steinhilber**. I wish I had an easy answer for that because you may know that I was in Switzerland representing the educators at the International Convention, looking at developing model legislation for member States of Berne last fall.

I think that one of the interesting aspects of that is that even in the question of developing of model legislation for Berne nations, the United States had a very difficult time convincing anyone of two things. One, that computer software should be protected under copyright at all, and if so, what is the extent of copyright? We championed that issue.

Second, that sound recording should be covered by copyright at all. Of course, there are the purists who say that should be under the Rome Convention.

I do not have an easy answer, but I do not think that question has really come to full fruition. If we were really convinced that internationally we were going to be severely damaged, I would be here with a different statement. But I am not convinced.

Senator **DeConcini**. The problem is that you are asking legislators to wait until there is a big problem, and then try to act. It might be wiser to avoid a big problem by acting before that huge foreign interest has their special representatives here talking about the jobs, the economy, and the retaliation or what have you. Waiting puts legislators in a awkward spot.

Let me ask you this. Not to put words in your mouth, but as I understand your statement, you do agree that there should be the remedy of injunction for any copyright infringement, correct?

Mr. **Steinhilber**. No question about that.

Senator **DeConcini**. Public entities as well?

Mr. **Steinhilber**. That is correct.

Senator **DeConcini**. Then what you are opposed to here is to damages and attorneys' fees that could be collected if this bill were passed?

Mr. **Steinhilber**. I think the principal issue is statutory damages and attorneys' fees.

Senator **DeConcini**. Then you further believe that we ought not to act, in your term, precipitously or too soon; that we ought not to act until we have some kind of idea just exactly what the magnitude of this problem may be?

Mr. **Steinhilber**. Not only the magnitude but the question of looking at the U.S. Supreme Court and what it does with the *Union Gas* case.

Senator **DeConcini**. If they hold in the *Union Gas* case that Congress can regulate and abrogate that, then you would still want to wait until you see how big the problem is, if there is a problem. Is that right?

Mr. **Steinhilber**. For S. 497, yes. But if you recall from the details of the testimony, we also offered an olive branch in there.

That is that there may be some agreement for something less than S. 497.

Senator **DeConcini**. But you would like to wait before we pass anything to see if this is really a big problem?

Mr. **Steinhilber**. For S. 497 in its current form, that is correct.

Senator **DeConcini**. Have you got a quantity of how much infringement it would take for you to conclude that, yes, it is a problem and now we need to deal with it or negotiate, or maybe even pass S. 497?

Mr. **Steinhilber**. Let me bifurcate the question, if I may. If you are asking the question, what about infringing, then I have problems with my members constantly, not necessarily in issues of institutional infringing, but individuals going out and infringing. We have a regular process of telling them, no.

Indeed, we have suggested to school systems a local policy for anybody who violates copyright law. Not only is it a violation of Federal law, but it also is a violation of school policy, which means that you can have disciplinary action within the school system for violating that law, just like you would with any other violation.

I do not want to get into the violation of individual infringements, but if you are talking about institutional infringement——

Senator **DeConcini**. I am talking about institutional infringement. How much would it take for you——

Mr. **Steinhilber**. Not very much. If I saw half a dozen State AG's coming forth and saying, "We advise you that the law does not apply, so therefore, you can do anything with impunity," I would be the first one here saying you should pass it.

Senator **DeConcini**. If you saw 6 out of the 50 States with public entities of some nature taking the position that "the law makes us immune, nobody can do anything to us"—then that would change your mind?

Mr. **Steinhilber**. That would change my mind.

What we have found where we have had to do some correction is where a director of audiovisuals for a university read something in some news media that they are no longer under copyright. Then we have to inform them that they are.

What happens is that they may make a statement to a sales person saying, "We are not under copyright," but that is not an institutional decision. That happens to be one individual.

Senator **DeConcini**. It seems to me that approach puts the universities or the public entities that you represent in a very precarious position of waiting for advice that they can go ahead and infringe all they want because the law happens to be on your side now, even though it is not right.

Mr. **Steinhilber**. That is not the advice we are giving. In fact, after these last couple of decisions have come up, there have been articles both in the Chronicle of Higher Education, written by representative higher education, and also there was an article that I wrote for our own publications for every school system in the United States—not to infringe. There was a publication that was produced by the American Library Association that went out last fall—not to infringe.

Senator **DeConcini**. So your position is, don't do it, but don't make it against the law?

Mr. **Steinhilber**. No. It is still against the law.

Senator **DeConcini**. I mean, don't use that as a defense, the exemption that you now have?

Mr. **Steinhilber**. You may be exempt from statutory damages, but that is not an excuse for disobeying the law.

Senator **DeConcini**. So you are taking the public entities and really putting them in a special position because the courts have said so?

Mr. **Steinhilber**. That is correct.

Senator **DeConcini**. And you don't want anybody to mess with that particular decision now?

Mr. **Steinhilber**. We make arguments on the 1st, 10th, and 11th amendment on the issues far beyond the question of copyright.

Senator **DeConcini**. It seems to me that if we follow your logic, we are inviting a crisis somewhere down the road. Maybe I am wrong. I can not prove that, but just based on what happens in copyrights, patents, and even trademarks, when you let the seepage start and the leakage starts—it grows, and then pretty soon you have a real problem.

You see a tremendous economic loss and then you see the potential curtailment or reduction of the stimulation of intellectual properties and ideas and what have you. Who suffers? Maybe IBM and the big guys can make it, but what about the small business?

What about what is right, if you really believe in the preservation of intellectual properties? I really have a problem with that.

I appreciate your testimony and I realize it is given in the spirit of where you and your associates are coming from, along with your feeling that you want to do what is right while representing your clients at the same time. But I do have a feeling that we need to do something—if not S. 497, then we still need to act here before there is a big problem.

Thank you.

Mr. **Steinhilber**. Thank you, Mr. Chairman.

Senator **DeConcini**. We will keep the record open for two weeks in case there are any further comments or statements to be submitted.

Thank you all very much.

[Whereupon, at 11:14 a.m., the subcommittee was adjourned, to reconvene at the call of the Chair.]

APPENDIX

ADDITIONAL SUBMISSIONS FOR THE RECORD

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May 12, 1989

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Honorable Dennis Deconcini
Chairman, The Subcommittee on Patents,
  Copyrights, and Trademarks
Committee on the Judiciary
328 SHOB
United States Senate
Washington, D.C. 20510-0301

Re: S. 497

Dear Mr. Chairman:

The Subcommittee on Patents, Copyrights, and Trademarks is now considering S. 497 to amend the Copyright Act to provide that a state may be sued in federal court for infringement. AIPLA strongly supports prompt enactment of S. 497 which addresses an important legal principle. Copyrights are personal property. The 14th Amendment to the Constitution prohibits states from depriving persons of property without due process of law. Since the current state of the law allows this to occur, the law must be amended.

Patents are also personal property. We urge the Subcommittee to recognize that the Supreme Court has certainly created the identical injustice for patent owners.. just as it has for copyright owners. We see absolutely no justification to allow a state to deprive a person of a copyright, patent right, or any other form of property in contravention of the 14th Amendment.

Article I, Section 8, Clause 8 of the Constitution gives Congress the power "[t]o promote the Progress of Science and the useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries." The First Congress exercised that power in 1790 by enacting both a patent statute and a copyright statute. Those statutes and the Supremacy Clause have made copyright and patent rights exclusively federal in nature. Sears, Roebuck & Co. v. Stiffel & Co., 376 U.S. 225 (1964); Compco Corp. v. Day-Brite Lighting, Inc., 376 U.S. 234 (1964); Bonito Boats, Inc. v. Thunder Craft Boats, Inc., ____ U.S. ____, 109 S. Ct. 971 (1989).

Formerly AMERICAN PATENT LAW ASSOCIATION (APLA)

Congress has granted the federal courts exclusive jurisdiction over copyright and patent cases arising under those statutes. 28 U.S.C. Section 1338(a). Therefore, the owners of such rights may only enforce them in federal courts.

Congress has recognized that the 5th Amendment to the Constitution prohibits the federal government from depriving persons of copyrights and patent rights without due process of law. Owners of such rights may sue the federal government and its agents for infringement. 28 U.S.C. 1498.

AIPLA filed an amicus curiae brief with the Supreme Court in Richard Anderson Photography v. Radford University, 109 S. Ct. 1171 (1988), and in BV Engineering v. UCLA, 109 S. Ct. 1557 (1988), urging the Court not to extend the doctrine enunciated in Atascadero State Hospital v. Scanlon, 473 U.S. 234 (1985), to cases where the only remedy available to a private party claiming tort injury by a state is a federal remedy. As the Subcommittee knows, the Supreme Court has never directly addressed the issue of 11th Amendment immunity in a context where exclusive jurisdiction rests in federal court. The Court in Atascadero said, "the issue is not the general immunity of the States from private suit... but merely the susceptibility of the State to suits before federal tribunals." However, when the Supreme Court denied petitions for a writ of certiorari in both Richard Anderson Photography and BV Engineering, the result was the general immunity of the states from private suit for copyright infringement. These property rights of the petitioners were effectively extinguished as to the states. As the 9th Circuit said in BV Engineering at 858 F.2d 1400:

> We recognize that our holding will allow states to violate the federal copyright laws with virtual impunity. It is for Congress, however, to remedy this problem.

The Subcommittee has received a report from the Register of Copyrights describing the legal development of the 11th Amendment. The last nine pages of the body of the report contains a discussion of the few reported cases involving the application of the 11th Amendment in copyright suits against states. Following is a discussion of patent cases involving the same issue.

In a pre-Atascadero case, Hercules, Inc. v. Minnesota State Highway Department, 337 F. Supp. 795 (D. Minn, 1972), the plaintiff owned a patent on a process of using a chemical compound for weed and pest control. The plaintiff sued a state agency for unauthorized use of the process and Dow Chemical Company for contributing to the infringement by supplying the state agency with the chemical. The court said:

> Neither the State of Minnesota nor its highway department or officers have any right to use a valid patent without license or compensation and . . . doing so constitutes a violation of constitutional protections of rights in property.
>
> . . . Thus, if the Federal courts cannot hear a claim of patent infringement by a state because of the XI Amendment, a patentee will never have a forum for asserting the unconstitutionality of the taking of his patent.

337 F. Supp. at 799. The court found the patent valid and infringed. The state was enjoined from further use of the process, but damages were denied on 11th Amendment grounds. Damages were assessed against Dow Chemical for contributory infringement.

In Lemelson v. Ampex Corp., 372 F. Supp. 708 (N.D. Ill. 1974), also before Atascadero, the plaintiff sued the Illinois Bureau of Investigation and its supplier for the unauthorized use of a patented magnetic recording system for video document storage and retrieval. The court denied the Illinois Bureau of Investigation' motion to dismiss the complaint and held that the state had impliedly consented to be sued, relying on Parden v. Terminal Railway of Alabama, 377 U.S. 184 (1964). The court went on to also say that the state is liable for damages suffered by the patentee in addition to injunctive relief if infringement is found:

> If a state has taken property, a right of compensation exists. It would be unfair for the state to unjustly enrich itself and then be immune from repayment.

377 F. Supp. at 713.

Perhaps the most direct statement vis-a-vis the 11th Amendment for patent law and copyright law prior to the recent circuit court copyright cases applying the Atascadero test was in Mills Music Inc. v. Arizona 591 F.2d 1278 (9th Cir. 1979), where the court held a state liable for damages for copyright infringement. The court cited Lemelson as consistent with its decision. The court said, at 591 F.2d 1286:

> Accordingly, we conclude that the Eleventh Amendment's sovereign immunity does not permit a state to nullify the rights reserved and protected

> by Congress, acting pursuant to the Copyright and Patent Clause.

However, Mills Music has been overruled. BV Engineering v. UCLA, 858 F.2d 1394, 1397-98 n.1 (9th Cir.), cert. denied 109 S. Ct. 1557 (1988).

In Paperless Accounting, Inc. v. Mass Transit Administration, Civil No. HAR 84-2922 (D. Md. 1985), the plaintiff owned a patent on an automatic fare charging device and claimed the Mass Transit Authority (MTA), an agency of the State of Maryland, was using the patented device in the Baltimore Metro Subway system. A second defendant, Compagnie Generale D'Automatisme, a French corporation with a U.S. subsidiary, manufactured the machines in Europe and sold them to the state agency. The defendants moved to dismiss the complaint on the ground that the 11th Amendment immunized the State of Maryland from suit and therefore the court lacked jurisdiction. The court denied the motion. The parties then settled the claim and the case was not tried.

The plaintiff in Chew v. California, Civil No. S-88-245 EJG (E.D. Cal. 1988), was not as fortunate. In this case, the plaintiff owns a patent on a process to test automobile exhaust fumes. The plaintiff sued the state for unauthorized use of the patented process. The state moved to dismiss the complaint on grounds identical to those urged in Paperless Accounting, Inc. The district court granted the motion to dismiss:

> Although the court is reluctant to reach a conclusion contrary to binding Ninth Circuit authority, recent Supreme Court decisions compel the court to conclude that Mills Music, supra is no longer a correct statement of the law. Applying the two most recent pronouncements of the Supreme Court in Atascadero, supra, and Welch v. State Dept. of Highways & Transportation, 107 S.Ct. 2941 (1987) to the facts of this case, the court finds that neither § 271 nor § 281 of Title 35 contain "unmistakable language" indicating congressional intent to abrogate the state's immunity under the Eleventh Amendment. Accordingly, defendant's motion must be granted.

The judgment on the order has been docketed for appeal in the Court of Appeals for the Federal Circuit.

We believe that Congress never intended that states should be free to deprive copyright and patent owners of their federally granted property rights. If that was the intent of Congress, it would be stated somewhere in the extensive legislative history of these 199 year old statutes, or in the statutes themselves. Furthermore, we are not aware of any case where a court has held or even said that Congress intended that states are immune from copyright or patent infringement.

In the normal course, if a law is drafted ambiguously, courts have the responsibility to strive to determine congressional intent. In this situation, the tables are turned. As reflected in S. 497, Congress must now meet the courts' approval in drafting statutes to indicate what Congress intends.

The Supreme Court in Atascadero said, "Congress may abrogate the States' constitutionally secured immunity from suit in federal court only by making its intention unmistakably clear in the language of the statute." Later in the opinion the Court said Congress must express its intention "unequivocally," and still later "specifically." 473 U.S. at 242. In defining those liable for copyright infringement, Congress chose the term "anyone" in the 1976 Act. 17 U.S.C. § 501(a). Four circuit courts of appeals have decided that as Congress has failed to meet the Atascadero test, a fortiori, states are immune from damages claims for copyright infringement liability.

Congress chose the term "whoever" in the patent statute, 35 U.S.C. § 271, to define those liable for infringement. Some time in late 1989 or early 1990, the Federal Circuit is expected to decide in the Chew case whether the pronoun "whoever" meets the Atascadero test. Without wishing to prejudge that decision, especially since our full sympathies lie with Mrs. Chew, it appears to us that the pronouns "anyone" and "whoever" in this context are synonyms.

In sum, we urge the Subcommittee not to wait for further instruction from the courts on the inadequate drafting of the patent law, as well as the copyright law. Neither patent owners nor copyright owners should be granted a federal property right but denied the opportunity to enforce a claim for damages under that right against states. All of the compelling legal and equitable reasons which justify prompt clarification of the copyright law also fully justify the same clarification of the patent law.

Sincerely,

Jack C. Goldstein

Jack C. Goldstein
President

PENNSTATE

1855

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Audio-Visual Services
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May 15, 1989

Senator Dennis DeConcini, Chairman
Subcommittee on Patents, Copyrights, and Trademarks
327 Senate Hart Office Building
Washington, DC 20510-6275

Dear Senator DeConcini:

The membership of the Consortium of College and University Media Centers (CCUMC) is composed of media center managers and personnel in 65 colleges and universities throughout the country. These centers represent the majority of the large film/video libraries that provide, in addition to services to their own institution, educational media rental services to public schools and to higher education. Many of the CCUMC member institutions have been providing these services for more than 50 years. The films, and more recently videotapes, that are offered for low-cost rental fees, are acquired, in large part, from commercial producers and distributors of these materials.

The members of CCUMC have long recognized the importance of the protection afforded these producers by the copyright law. This support extends to the Copyright Remedy Clarification Act, S.497, which is currently under consideration by the Subcommittee on Patents, Copyrights, and Trademarks of the Senate.

It is the position of CCUMC that congress, in enacting the copyright act of 1976, fully intended that copyright holders should be able to seek penalties from anyone making unauthorized copies of their work. CCUMC does not feel that state agencies were intended, nor should be intended, to hold immunity from copyright penalty lawsuits. The Copyright Remedy Clarification Act not only will protect the right of the copyright holder to seek damages, but this act will also help to make certain that the new educational materials so badly needed in the classrooms will continue to be available. Young people need high quality, well produced educational materials to assist them in developing the skills needed to deal with the problems of today.

In addition to viewing this legislation as being important, the members of CCUMC view the need for passage of S.497 as being an urgent need. The legislation will provide the full copyright protection to these producers only after enactment. Some state agencies may be tempted to begin a wholesale program of unauthorized copying, basing their decision on the recent court cases which have revealed the loophole in the 1976 copyright act.

Therefore, the members of CCUMC urge the subcommittee to act quickly and decisively in approving S.497, and in taking an active role in support of the bill through final enactment.

Yours very truly,

Robert L Allen

Robert L. Allen
Director, Audio-Visual Services

RLA:rjc

pc: J. Kerstetter, Executive Director, CCUMC

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MILWAUKEE, WISCONSIN
BENJAMIN F. SALTZSTEIN (1884-1981)
ROBERT A. SALTZSTEIN
741 N. MILWAUKEE STREET

May 30, 1989

Honorable Dennis DeConcini, Chairman
Subcommittee on Patents, Copyrights and Trademarks
Senate Judiciary Committee
328 SHOB
Washington, D. C. 20510-0302

Dear Senator DeConcini:

We are please to transmit to you a copy of the written testimony of Maclean Hunter Reports, Inc., of Chicago, Illinois, in connection with S-497, the Copyright Remedy Clarification Act of 1989.

We appreciate your sponsorship of this legislation and hope that it receives prompt consideration and passage.

Sincerely,

Stephen M. Feldman

smf/ch

cc: John Heffinger, Jr., President
Maclean Hunter Reports, Inc.

All members Senate Subcommittee on
Patents, Copyrights and Trademarks

TESTIMONY ON S. 497 OF
MACLEAN HUNTER REPORTS, INC.
BEFORE THE PATENTS, TRADEMARKS AND COPYRIGHTS
SUBCOMMITTEE OF THE SENATE JUDICIARY COMMITTEE

Maclean Hunter Reports, Inc. publisher of the Red Book, a leading used car valuation guide book, supports S.497, the Copyright Remedy Clarification Act of 1989. Maclean Hunter Reports is a subsidiary of Maclean Hunter Publishing Corp., publisher of nationally circulated trade and professional journals edited in Chicago, Minneapolis, Stamford Connecticut and Clearwater Florida.

Red Book has been in continuous existence since 1911, the oldest used car price guide in the United States. Red Book has a U.S. circulation of 48,000 copies per issue, published eight times per year. Red Book's editors constantly track pricing trends of practically all models of used cars, domestic and foreign, on a region-by-region basis.

Currently, model years back to 1982 are included in Red Book. Another publication, The Older Car Red Book, tracks vehicles manufactured before 1981. Red Book's editors also publish valuation guides for trucks, motorcycles, boats, vans and recreational vehicles. The editorial product in all these publications is not simply a mechanical reproduction or replication of auction data or dealer sales reports but expert opinion applied to market data. Red Book projects price trends for dozens of models, with adjustments for options and for mileage. Red Book's editors arrive at values by various methods which include analyzing reports from auctions, dealers and trade journals, studying customer demand for various models, regional wholesale transactions as well as retail transactions.

Red Book's largest user is the insurance industry which uses Red Book for calculating values of vehicles in total loss accidents. Red Book is also purchased by banks, credit unions and dealers, who rely on Red Book for its up to date accounts of the financing value of used cars. Government agencies, Federal and state, also rely on Red Book for determination of car values for tax purposes.

In the past several years commercial services acting under color of state law have been plagiarizing the editorial content of Red Book. This information was developed at great expense to Red Book. This copyrighted data is copied and merged into electronic databases by unauthorized copiers who market the data on a for profit basis to the insurance industry.

In Illinois, New Jersey, Pennsylvania, and New York, for example, where laws and regulations call for the use of averages of different used car book values to determine the amount insurers must compensate car owners for claims of theft or total loss, Red Book values are averaged with the National Automobile Dealers Association Guide (i.e. NADA Guide) to determine legal compensation value.

Commercial services which calculate market averages in those states have not obtained licenses from Red Book or from NADA. These infringers use the authorization of the state as a shield against copyright liability. We have discussed this with state officials, but to no avail.

This disregard of copyright owners can go on because states and their instrumentalities (including private parties acting under state authority) are now immune from damage actions under current court decisions. These cases were discussed at length by the Register of Copyrights when he testified before this Subcommittee on May 17 in support of S. 497.

This immunity contrasts with the copyright liability of the Federal government and its instrumentalities. The Federal government is liable for copyright infringements of its contractors and agents when it can be shown the government authorized the infringement. *See* *Auerbach v. Sverdrup*, 829 F.2d 175, 179 (D.C. Cir. 1987). States and their private sector agents should not enjoy any greater copyright immunity than the Federal government and its private sector agents.

Red Book and other used car valuation publishers have suffered *actual*, not merely speculative, damages as a result of ongoing state-authorized copyright infringement. Subscriptions to used car valuation publications have been cancelled or not renewed because customers do not need to receive two publications to calculate averages when they can acquire average values on demand from copyright infringers.

S.497 will strip away the defense of state authority from infringers. It reaffirms the principle embodied in Sec. 106(2) of the Copyright Act that only the owner of copyright can prepare or authorize derivative works based upon the copyrighted work. After all, the averaging of copyrighted data is the preparation of a derivative work.

S-497 will enable publishers to inform state insurance officials and attorneys general that states can no longer authorize commercial businesses to market averages of used car valuation data unless they have received permission from copyright owners like Red Book.

Much of the testimony the Subcommittee heard on May 17 involved direct state copyright infringement or infringement by state-operated universities. We add to that valuable testimony the no less important dimension of state infringement by proxy - private persons or corporations acting under color of state law.

Maclean Hunter respectfully requests prompt passage of S. 497.

GRAPHIC ARTISTS GUILD
11 WEST 20TH STREET/8TH FLOOR/NEW YORK, N.Y. 10011/(212) 463-7730

June 1, 1989

The Honorable Dennis DeConcini
Chairman,
Subcommittee on Patents, Copyrights and Trademarks
U.S. Senate Committee on the Judiciary
U.S. Senate
Washington, D.C. 20510

Dear Mr. Chairman:

As the President of the Graphic Artists Guild, I wish to express our strong support for the enactment of S.497, the Copyright Remedy Clarification Act, and my sincere appreciation for this opportunity to express the views of the Guild.

For more than twenty years, the Graphic Artists Guild has been a dedicated advocate representing professional graphic artists. With 3500 hundred members in ten chapters across the country, the Guild has advanced creators' interests, primarily through education. This has included a long-standing commitment to informing our membership about legislative issues that concern them as creators of intellectual property.

Most recently, the Guild took an early and active role in organizing and coordinating "Artists For Tax Equity," a coalition of 75 organizations representing nearly one million members. That grass roots effort convinced Congress that changing the law regarding the Uniform Tax Capitalization Rules for artists was just. The Guild has also diligently encouraged efforts to address the abuses of the 1976 Copyright Act's work-for-hire provisions during the past ten years.

The Copyright Act of 1976, a result of years of debate and compromise, could not anticipate the subsequent court decisions which allowed states to infringe on the copyrights of creators and owners with impunity. The Copyright Remedy Clarification Act is therefore necessary to ensure that states do not evade their responsibilities to copyright holders.

Without this technical correction to existing law, the livelihoods of creators and the industries in which they participate could face serious harm. The implications are staggering, for example:

> Nothing is preventing the states from using my own previously published illustrations to enhance its college catalogues, tourism brochures, public health literature or other printed matter -- without payment or acknowledgement to me;
>
> Nothing is preventing the states from reprinting a textbook (and its illustrations) for tens of thousands of schoolchildren instead of buying it from the publisher; and
>
> Nothing is preventing the states from going into direct commercial competition with artists like myself, or musicians or film makers, by marketing pirated versions of our work.

An artist thus exploited is as much a victim of crime as a citizen mugged on the street for the jewelry around his or her neck; but while the mugging victim could use the law to see justice done, the artist has no redress against the state.

Congress must ensure that its legislative intent is observed. Clearly, Congress did not intend for the states to infringe upon creative works with immunity, and this proposed legislation is an effective remedy. But Congress should not only examine its relatively recent intentions; it is imperative for it to also examine the original intention to encourage creativity by affording creators specific protections. Congress must take fundamental steps to ensure that creators are protected from overwhelmingly superior economic interests, whether they be agencies of the state or corporate conglomerates.

Once again, I thank you for the opportunity to express the views of one of our nation's most important resources, its Graphic Artists.

Sincerely,

Kathie Abrams

Kathie Abrams
President,
The Graphic Artists Guild

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FILE NO 40006.000002
DIRECT DIAL NO 202 955-1523

June 5, 1989

Senator Dennis DeConcini
Chairman, Patents, Copyrights
and Trademarks
Committee on the Judiciary
SH-327 Hart Senate Office Building
Washington, D.C. 20510

Dear Senator DeConcini:

The American Society of Magazine Photographers (ASMP) welcomes this opportunity to voice its support for S. 497, the Copyright Remedy Clarification Act, which you introduced on March 2, 1989. ASMP urges enactment of S. 497 as soon as possible to prevent the irreparable harm that our members and other creators are suffering because state institutions can infringe copyright rights with impunity.

ASMP is a national organization of over 5,000 member photographers with 34 chapters located in major cities across the United States. Its members produce the finest photography in advertising, corporate and editorial media. They regard their copyright rights in their works as their principal business assets, and take all necessary steps to protect and enforce those rights when necessary.

ASMP has long been a leader among creative organizations in the copyright arena, and is a leading member of the Copyright Justice Coalition, which represents the interests of over 100,000 individual creators of intellectual property in seeking changes in the "work made for hire" provisions of the 1976 Copyright Act. ASMP's objection to the unfairness of state immunity from copyright infringement suits for damages is predicated on the same concern that underlies its efforts to achieve reform of the work made for hire doctrine: photographers rely for their livelihood on the value of the images they create, and the copyright laws should provide an effective means by which that value can be protected. The unauthorized use of photographic images by state institutions without payment of compensation to photographers diminishes and in some cases destroys the value of the copyright rights in those images. Only the prospect of paying damages, including as much as $100,000 in damages for willful infringement, will deter state institutions from usurping rights that properly belong to the photographer.

The issues addressed by S. 497 are of real and immediate concern to ASMP members, a large number of whom regularly perform services for and furnish photographic images to a wide variety of state entities. Indeed, one of ASMP's general members, Richard Anderson, was the plaintiff in a leading case that demonstrates the urgent need for the legislation. See Richard Anderson Photography v. Radford University, 633 F. Supp. 1154 (W.D. Va. 1986), aff'd, 852 F.2d 114 (4th Cir. 1988), cert. denied, 57 USLW 3536 (1989).

Richard Anderson is a Baltimore based photographer. In 1982, the larger part of his business was devoted to institutional clients. As is typical for the business he is in, Anderson was contacted by a design firm to produce the photographs for a student prospectus brochure at Radford University, which is an instrumentality of the Commonwealth of Virginia. He used a written contract with the design firm spelling out that the selected photographs would be limited to a one-time usage in the brochure. He then spent four days photographing at Radford University, a state-run school in Virginia, exposing many rolls of film for a total of about 2,000 35mm transparencies, only a few of which would actually be used in the brochure. The fee for this commission was $1500, an amount which took into account the limited usage and the fact that the client was an educational, non-profit institution.

As is also typical business procedure, Anderson marked each slide mount with his copyright notice and sent the film to the design firm which would make the final choices of pictures to use in consultation with the University, after which the brochure would be produced and Anderson reasonably expected his original work -- the 2000 transparencies -- to be returned to him. Anderson intended to use selections from the work in his portfolio to solicit other jobs.

Anderson also expected to license reproduction rights to some of the other images from the job on a case-by-case basis. Such licensing, known as "stock photography", represents an important part of the income base of many photographers. It has spawned a whole industry of "stock photography houses" which act as agents for the existing work of photographers, supplementing the photographers' assignment income and in some cases greatly exceeding it. Many photographers consider "stock" to be their retirement plan. Most successful photographers point to the cushion that stock brings as the reason for their longevity in the business.

When, after several months, the images were not returned to him, Anderson began the attempt to retrieve them. Eventually, his photographs were reproduced using a different brochure and in a mailing — uses that were not contemplated by Anderson's agreement with the University. Anderson thereafter filed a copyright infringement suit which sought injunctive relief and monetary damages. When Radford returned the photographs, injunctive relief became unnecessary, and the dispute centered upon the question of Anderson's entitlement to damages.

Ultimately the Fourth Circuit held, as others have, that Radford University, its governing board and one of its officials sued in her official capacity were immune from damages under the Eleventh Amendment. While the state official remained amenable to a claim for damages in her individual capacity, the practical effect of the decision was to deprive Anderson of any reasonable chance of obtaining damages for the state institution's blatant and willful infringement.

Anderson's plight is unfortunately not unique. Many ASMP members take photographs for state entities, and the photographers often retain their copyright rights and simply license certain uses of the images. The rights of every one of those photographers is at risk under current law, because the state entities can and routinely do exceed the scope of the authorized uses by distributing the images for many unlicensed purposes.

Not only are photographers unable to obtain damages for these acts of infringement, the states' immunity also means that the value of the copyright rights themselves will be irretrievably damaged. No photographer can compete with his own images when they are freely distributed by a state institution for its own purposes.

Prospective purchasers of rights in those photographs are often deterred from entering into a licensing arrangement with the photographers where the images themselves are generally and widely available from state entities. Ultimately, therefore, state immunity erodes the economic value of the photographer's copyright rights by encouraging wide (and uncompensated) dissemination of images by state entities, and thereby discouraging market interest in those images.

The Supreme Court's refusal to hear the Anderson case and others like it means that legislative action is the only solution to the problem. ASMP accordingly urges prompt action on S. 497 to protect the valuable copyright rights of photographers and other creators.

ASMP requests that its views be made part of the Subcomittee record on S. 497.

Very truly yours,

Charles D. Ossola

Charles D. Ossola

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June 9, 1989

The Honorable Dennis DeConcini
U.S. Senate
Washington, D.C. 20510

Attention: Ms. Cecilia Swensen
Legislative Aide

Dear Ms. Swensen:

This is the statement for the Record on S-497 "The Copyright Remedy Clarification Act" which I discussed with you yesterday by phone.

We are badly hurt by the BV Engineering case decisions which effectively preclude the use of our products in state institutions doing cancer research.

Please get this statement into the record. Thanks for your help.

Sincerely,

William Stuart Taylor

ACRCLTR.WST

UNITED STATES SENATE
COMMITTEE ON THE JUDICIARY
SUBCOMMITTEE ON PATENTS, COPYRIGHTS AND TRADEMARKS

STATEMENT IN SUPPORT OF S-497 "THE COPYRIGHT REMEDY CLARIFICATION ACT"

My name is William Stuart Taylor. My address is 1828 L Street, N.W., Suite 660, Washington, DC 20036. I am a private attorney specializing in computer software, and I represent American Capital and Research Corporation, 9300 Lee Highway, Fairfax, Virginia 22031-1207. ("ACRC").

A subsidiary of ACRC, Clement Associates, Inc., of Ruston, Louisiana, has developed a highly innovative environmental research software product, known as TOX _____ RISK, which has the potential of greatly facilitating risk assessment of toxic dosage administered in cancer research. This product is also forecast to produce significant revenue for Clement Associates and ACRC.

TOX___RISK is a menu-driven microcomputer software package designed as a research tool for scientists in government and the private sector. Developed by the K.S. Crump Division of Clement Associates, Inc. with funding from the Electric Power Research Institute, TOX____RISK is a user-friendly toxicological risk assessment package that produces quantitative estimates of risk from quantal animal dose-response data on cancer and extrapolates these estimates to humans using a user-selected conversion method. The package provides data entry and management facilities, computation of maximum likelihood estimates of risk or dose with confidence bounds and graphs of the dose-response functions fit to the data provided by the user. The functions which TOX__RISK can fit to the data are the Multistage, One Stage, Two Stage, Three Stage, Four Stage, Five Stage, Six Stage, Weibull, Mantel-Bryan and Log-Normal models. By the nature of the design of the program it is intended to be used by a select group of scientists rather than the general population. To date university, government and non-profit agencies account for approximately 40 percent of sales.

This entire program has been seriously impacted by the decisions in B.V. Engineering V.U.C.L.A., 657 F.Supp. 1246, Aff'd ___ F.2d ____ (9th Cir. 1988) cert. denied, ____ U.S. ____ (1989), because many research scientists who would use this product are employed by state institutions.

On several occasions various branches of the University of California have initiated purchase of TOX__RISK for use in their research work. Most efforts were thwarted by university council who refused to sign the sublicensing agreement which was negotiated between EPRI and Clement Associates, Inc. Specific campuses involved are the University of California at Riverside and the University of California at Los Angeles. We have a similar problem with Los Alamos National Laboratory which is currently operated by the University of California as prime contractor.

Because of the BV Engineering decisions, we have required state institution to obtain an effective waiver of their rights under the Eleventh Amendment before contracting for this product. The states have not been able to comply. Use of this valuable tool has been lost. Research has been impeded by the absence of this product, and Clement Associates and ACRC have lost appreciable amounts of revenue.

The Congress is - as always - our last and best source of help and relief in this situation. We believe S-497 is in the national interest, and we urge its passage.

TAYLOR00

SVE

SOCIETY FOR VISUAL EDUCATION, INC.
An Employee-Owned Business Corporation
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TELEX 724389 TELSPAN SKO ATT SVE

June 12, 1989

Mr. Dennis DeConcini
Chairman, U.S. Senate Subcommittee on
Patents, Copyrights, and Trademarks
U.S. Senate
Washington, D.C. 20510

Dear Chairman DeConcini:

I am Chairman and President of Society For Visual Education, Inc., (SVE) a for-profit firm, located in Chicago, IL. Our company is 100% employee-owned. We publish video, audio-visual, and computer software programs designed for the kindergarten through 9th grade education market. We have been in this business for 70 years during which time we have earned a very proud and distinguished record of service to the education community.

I am appealing to you on behalf of the Copyright Remedies Coalition (CRC) and the International Communications Industries Association (ICIA) which is a member of the CRC. I ask that my comments be made part of a formal hearing record on S. 497.

Executives of other small publishers and I are increasingly concerned about court decisions that have upheld the view that the 1976 Copyright Act exempts states and state agencies from damage liability for copyright infringements.

Judging by the Supreme Court's recent denial of centiorari in a relevant case, this matter is not going to be resolved in the courts at any time in the near future. Consequently, we appeal to this subcommittee. We were pleased by the introduction of S.497, and support this bill. Witnout S.497, companies like mine will remain vulnerable to unauthorized copying by state agencies that would be not subject to effective penalties.

Our goal in seeking passage of this legislation is to deter violations of the Copyright Act, to make sure that states do not have an incentive to ignore the requirement of the Copyright Act. Our goal is not to engage in a series of time consuming and expensive legal actions against our customers. S.497 would achieve our goal.

My company's programs are targeted to support teachers and students in kindergarten through 9th grade. We sell our products through our own sales representatives and dealers in the states. All of our products are copyrighted and we vigorously enforce our copyrights to ensure that our products are not used without permission.

Frankly, we take considerable risks in producing off-the-shelf educational programs on speculation. We attempt to anticipate the needs of teachers and school administrators, working often two and three years ahead. We invest capital in producing programs to respond to these needs. Not every product is successful from a financial standpoint, but on the average, we have found that the best sellers offset these losses.

The Copyright Act should ensure that when we invest capital in a new program, it will be ours exclusively for a reasonable period during which we will have a chance to realize a return on our investment. Without the deterrent effect of adequate remedies for violations by states, our risks would become extraordinary and soon we would have no choice but to elect not to serve the education market at all.

Following are two examples of ways the programs in my catalogue could be threatened if state agencies could continue to copy without authorization:

- The state department of public instruction in any state could purchase only one copy of an SVE program, reproduce and distribute copies to all schools in that state, and preempt my entire sales program in that state.

- The state university's education department or instructional media center could make copies of my programs and sell them through their catalog without permission . For example, the University of Kansas has an Instructional Materials Center which is actively involved in selling video and audio-visual products to local schools. Without passage of S.497, the University of Kansas could add programs from the SVE catalog to their own catalog, then distribute copies of our copyrighted materials without our permission and without compensation to us. KU would not be subject to penalties for unauthorized copying.

If the potential for unauthorized copying is realized, SVE and countless other publishers simply could not survive. Therefore, the adoption and passage of S.497 is crucial. Without it, the private sector's incentive to invest in development and distribution of instructional materials will be diminished, leaving a definite void.

At a time when our President has promised to be "the Education President" but also pledges "no more taxes," it would be illogical to allow educational publishers to be hurt by the absence of an effective deterrent in the Copyright Act; illogical to allow a loophole in the Copyright Act to stand, only to have publishers fall; illogical not to provide the protection intended when the law was written; illogical to forego continual development of the richest and most varied array of instructional programs in the world. Frankly, our nation needs to do more -- not less -- to educate and train our citizens to compete effectively on an international scale. We need to have teeth in the penalties provisions of Copyright Act to help accomplish this goal.

I hope that you will give due consideration to these remarks and move quickly to pass S.497.

Sincerely,

Suzanne T. Isaacs
President

STI:h

3605a

SVE Society For Visual Education, Inc. 1345 Diversey Parkway, Chicago, Illinois 60614. A Business Corporation.

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Printed in U.S.A.

GENERAL COUNSEL OF THE
UNITED STATES DEPARTMENT OF COMMERCE
Washington, D.C. 20230

JUN 16 1989

Honorable Dennis DeConcini
Chairman, Subcommittee on Treasury,
Postal Service and General
Government
Committee on Appropriations
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

The Department of Commerce supports the adoption of S. 497, the Copyright Clarification Act, and recommends that its provisions be extended to include infringement of patents as well as copyrights and registered mask works.

The Supreme Court has declined to review Fourth and Ninth Circuit holdings that the Eleventh Amendment bars a damage suit in federal court against a state or state instrumentality for copyright infringement. BV Engineering v. University of California, Los Angeles, 858 F.2d 1394 (9th Cir. 1988), cert. denied, 109 S.Ct. 1557 (1989); Richard Anderson Photography v. Brown, 852 F.2d 114 (4th Cir. 1988), cert. denied, 109 S.Ct. 1171 (1989). The effect of these holdings had also been extended to patents. Chew v. California, No. S-88-245 EJG (E.D. Cal., decided October 13, 1988).

All three decisions turned on the lack of unmistakable congressional intent in the patent and the copyright laws to abrogate state sovereign immunity under Atascadero State Hospital v. Scanlon, 473 U.S. 234 (1985). Senate Bill 497 is an effort to make congressional intent unmistakable, and we support that effort. We must note, however, that a pending Supreme Court case, Pennsylvania v. Union Gas Co., No. 87-1241 (argued October 31, 1988), could have important implications for the manner in which the Congress wishes to approach the problem of Eleventh Amendment immunity when it next considers intellectual property cases. Union Gas may resolve whether Congress has power under the commerce clause to abrogate state sovereign immunity in the Superfund Amendments. A ruling that Congress lacks such power could raise doubts as to whether Congress has power, under the copyright clause, to abrogate Eleventh Amendment immunity. If the decision in the Union Gas should raise Constitutional doubts about S. 497, other alternatives should be considered, e.g., allowing copyright suits against states in state courts.

If, on the other hand, the Supreme Court's decision in Union Gas does not cast doubt on the constitutionality of S. 497, we believe that the bill's approach would be an appropriate way to address states' immunity from suit for infringement of patents, copyrights, or mask works.

General applicability of the patent laws serves important public policies. Presently, individuals (including state employees) and private entities are liable for copyright and patent infringement. Likewise, the United States has consented to be sued for copyright and patent infringement. 28 U.S.C. § 1498. Only states are immune from damage suits brought in the federal courts for copyright and patent infringement. State immunity from liability for patent infringement is not consistent with encouraging innovation and detracts from the ability of inventors to recover investment and profit from innovation. Moreover, inventors may not wish to devote time and resources to solving problems particularly faced by state agencies where there is no prospect of reward offered by the patent system.

The Office of Management and Budget advises that there is no objection to the presentation of these views to the Congress.

Sincerely,

Wendell L. Willkie, II
General Counsel

CBEMA

July 17, 1989

The Honorable Dennis DeConcini
Chairman
Subcommittee on Patents, Copyrights and Trademarks
U.S. Senate
Washington, D.C. 20510

Dear Mr. Chairman:

The Computer and Business Equipment Manufacturers Association (CBEMA) appreciates the opportunity to submit a statement in support of S. 497, the Copyright Remedies Clarification Act of 1989. We would appreciate it if you would include this letter in the official record of the hearing the Subcommittee held on S. 497 on May 17, 1989.

CBEMA represents companies on the leading edge of American high technology in computers, business equipment, and telecommunications. Our members had combined sales of more than $230 billion in 1988, representing nearly five percent of our nation's gross national product. CBEMA members employ more than 1.7 million Americans.

On behalf of our members and their employees, we want to thank Chairman DeConcini and Senators Simon and Hatch for introducing this legislation to clarify that the states are not immune from enforcement of copyright laws in Federal courts.

In 1987, CBEMA members spent $12.1 billion on research and development of new technology. U.S. intellectual property laws, including the Copyright Act and the Semiconductor Chip Protection Act, help make this enormous investment in R&D possible. These laws provide incentives for research and development by ensuring that innovators can recover a fair return on their investments in developing new technologies. There would be little incentive for companies to develop new technology, if others were allowed to reap the benefits of expensive R&D programs by simply duplicating new products, without making similar investments of their own.

Recent federal court decisions opened a substantial loophole in Federal copyright law and diminished the protection it affords innovators by declaring that, under the Eleventh Amendment to the Constitution, the states are immune from enforcement of the Copyright Act in federal courts[1]. If this loophole is left open, state agencies, including state universities, could infringe on copyrights without fear of the money damages to which all other users of copyrighted material are subject. This is more than a theoretical threat. Last June, the Register of Copyrights reported that

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[1] BV Engineering v. University of California, Los Angeles, 657 F. Supp. 1246 (C.D. Cal. 1987), aff'd 858 F.2d 1394 (9th Cir. 1988), cert. denied, 57 USLW 3614 (1989); Mihalek Corp. V. Michigan, 595 F. Supp. 903 (E.D. Mich. 1984), aff'd on other grounds, 814 F.2d 690 (6th Cir. 1987); Cardinal Industries v. Anderson Parish Association, 811 F.2d 609 (11th Cir. 1987); Richard Anderson Photography v. Radford University, 633 F. Supp. 1154 (W.D. Va. 1986), aff'd. 852 F.2d 114 (4th Cir. 1988), cert. denied, 57 USLW 3536 (1989); Woelffer v. Happy States of America, Inc., 626 F. Supp. 499 (N.D. Ill. 1985).

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claims of state immunity from copyright enforcement under the Eleventh Amendment are increasing. The Register concluded that "copyright owners have demonstrated that they will suffer immediate harm if they are unable to sue infringing states in federal court for money damages."[2]

Specifically, CBEMA members are concerned that some state agencies, and especially some state universities, will illegally duplicate computer software and other technologies protected by the Copyright Act and the Semiconductor Chip Protection Act, unless the deterrent of money damages is restored. This concern was heightened by the Ninth Circuit's recent ruling in BV Engineering.[3] In BV Engineering, a small manufacturer provided software to UCLA, a major public university, on a trial basis. After making several copies of a program in violation of the Copyright Act, UCLA returned the software without paying the manufacturer. Under the Ninth Circuit's ruling, UCLA's illegal act went unpunished because the University was able to successfully assert state immunity from copyright money damages under the Eleventh Amendment. If BV Engineering and other similar rulings are allowed to stand, state agencies and universities, some of the largest consumers of the products manufactured by CBEMA members, could conceivably infringe on copyrighted material with impunity.

Assertions of state immunity from the Copyright Act create tremendous loss exposures for high technology industries. Each year, CBEMA members sell billions of dollars worth of computer systems to state agencies and state universities, including packages of software which provide the operating programs for the computer hardware. Assertions of state immunity create exposures for operating system software, possibly the most valuable and advanced type of software product.

Computer and business equipment manufacturers would be denied a fair return on their rather considerable investments in developing operating system software. A state government could simply acquire one operating system program and illegally duplicate it, without fear of copyright infringement sanctions, thereby providing all state agencies with programs to make their computer systems run at no charge. The average operating system program is licensed for approximately $25,000. Thus, while a private firm would have to bear this cost, a state purchasing agency could avoid the costs of purchasing numerous operating systems simply by exploiting this loophole in the Copyright Act created by several lower courts.

Operating systems are not the only forms of computer software that are at risk. U.S. computer manufacturers and software firms lead their foreign counterparts in the development of compilers, utility programs, data bases, and application software.

We recognize that most state agencies and universities continue to faithfully adhere to the Copyright Act. But, permitting this loophole to remain open will only encourage an irresponsible minority of state agencies or employees to attempt to exploit this exception created by the courts. Irresponsible agencies will also gain an unfair advantage over those who obey the law by avoiding the cost all others must pay for computer programs.

Congress can and should overturn these misguided lower court rulings.

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[2] Register of the Copyrights, "Copyright Liability of the States and the Eleventh Amendment," June, 1988.

[3] B.V. Engineering v. University of California, Los Angeles, 657 F. Supp. 1246 (C.D. Cal. 1987), aff'd 858 F.2d 1394 (9th Cir. 1988), cert denied 57 USLW 3614 (1989).

While the Eleventh Amendment generally prevents suits against the states in federal courts, Congress may, in certain circumstances, abrogate state immunity by including language in statutes which specifically makes states subject to enforcement in federal court.[4] S. 497 would close the substantial loophole created in BV Engineering and other cases by amending the Copyright Act of 1976 to specifically clarify that the States are subject to money damages for copyright infringement.

Until very recently, the question of whether Congress could abrogate state immunity from suits in Federal court in exercising its Article I powers was at issue. The Supreme Court previously had only sanctioned Congressional abrogation of state immunity in enacting civil rights legislation pursuant to the 14th and 15th Amendments. On June 15, however, the Supreme Court handed down its decision in Pennsylvania v. Union Gas Co.[5], which should clear the way for passage of S. 497, to clarify that the States are not immune from enforcement of federal copyright laws in Federal court. The Supreme Court held that Congress may subject the States to suits for money damages in Federal courts by enacting environmental regulations pursuant to its Article I powers under the Commerce Clause.[6]

Under Union Gas, Congress may now abrogate state immunity from enforcement of federal copyright laws by amending the Copyright Act of 1976 with language that "clearly evinces an intent" to make the states subject to money damages under the Act.[7] S. 497 as introduced clearly states that "any State and any instrumentality of a State . . . shall be subject to the provisions of [the Copyright Act] to the same extent as any nongovernmental entity." The Committee may want to consider making this language even more emphatic in response to the Court's ruling in Union Gas and other recent Eleventh Amendment decisions.[8] The House Subcommittee on Courts, Intellectual Property and the Administration of Justice is considering such a revision to ensure that the proposed statute will meet the strict test for clarity most recently elaborated by the Court.

In light of the High Court's ruling, Congress should move quickly to enact S. 497 to ensure that state agencies cannot evade enforcement of our nation's copyright laws.

The Subcommittee might also consider extending the scope of S. 497 to clarify that the states are not immune from the enforcement of U.S. patent laws in Federal court. Intellectual property policy dictates that all innovation receive equal protection, regardless of whether that protection is afforded by the copyright or patent laws.

Finally, we would like to address the argument made by opponents of S. 497 that the availability of injunctive relief is adequate to enforce the copyright laws against state agencies. First, Congress should be wary about creating loopholes in the remedies section of the Copyright Act. Congress should continue to treat all copyright violators uniformly or else it invites endless demands for exceptions.

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[4] Atascadero State Hospital v. Scanlon, 473 U.S. 234 (1985); Welch v. State Department of Highways, 107 S.Ct. 2941 (1987).

[5] Pennsylvania v. Union Gas Co., No. 87-1241, U.S. Supreme Court (June 15, 1989).

[6] Union Gas Co., 87-1241 at 16.

[7] Union Gas, 87-1241, p. 9, referring to Atascadero State Hospital v. Scanlon, 473 U.S. 234, 242 (1985) in which the Court held that Congress must make its intent to abrogate state immunity pursuant to the 14th Amendment "unmistakably clear."

[8] See Hoffman v. Department of Income Maintenance, No. 88-412, 6, U.S. Supreme Court (June 23, 1989) in which the Court held that the intent of Congress to abrogate sovereign immunity must be unmistakably clear in statutory language and that committee reports and legislative history are not sufficient to meet the Atascadero test (emphasis added).

Second, injunctive relief is of especially limited effectiveness in combatting infringements of copyrighted software and other computer technology. As in the BV Engineering case, once a computer program is illegally copied, it can be copied and used over and over again. Enjoining further copying of programs is likely to have very little effect, especially in the state university environment, where thousands of computer users may have access to software and could potentially copy it. Not only might injunctions be issued too late -- after the great majority of copying and injury has already been done -- but the potential for such widespread copying may make it impossible for the courts and even cooperative university officials to enforce injunctions and collect illegal copies.

In addition, unlike illegal copying of textbooks which can be more easily detected and controlled by regulating photocopiers, copying computer programs is often undetectable. Copyrighted software, for example, can be copied on personal computers in private homes or dormitories. This further compounds the problem of enforcing injunctions.

While we realize that most state universities and other state agencies continue to obey federal copyright laws, CBEMA believes that only money damages -- the same damages to which all other users of proprietary materials are subject -- provide an adequate deterrence to copyright infringement by the States.

Again, we commend Chairman DeConcini and Senators Simon and Hatch for their leadership on this issue and express our strong support for S. 497.

Sincerely,

John L Pickett

John L. Pickitt
President

cc: Members of the Subcommittee